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TOBACCO PROGRAM

Y 4. AG 8/1:103-87

Tobacco Program, Serial No. 103-87,....

HEARING

BEFORE THE
SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

JUNE 11, 1994, GREENSBORO, NC

Serial No. 103-87



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TOBACCO PROGRAM

SATURDAY, JUNE 11, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES,
COMMITTEE ON AGRICULTURE,
Goldsboro, NC.

The subcommittee met, pursuant to call, at 9:05 a.m., in the Main Auditorium, Wayne Community College, Goldsboro, North Carolina, Hon. Charlie Rose (chairman of the subcommittee) presiding.

Present: Representatives Baesler and Kingston.

Also Present: Representative Lancaster.

OPENING STATEMENT OF HON. CHARLIE ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. The Specialty Crops and Natural Resources Subcommittee of the House Agriculture Committee will please come to order.

We are here today at the Main Auditorium of the Wayne Community College in Goldsboro, North Carolina, at the request of our friend and colleague, Congressman Martin Lancaster. This public field hearing is to discuss the tobacco program and to give people from this area an opportunity to make pertinent questions about the way the program is working and the problems that it is having or any other matters of concern to them regarding the tobacco program.

I am going to recognize all the, Members of Congress on this panel, for an opening statement, and I would like before I recognize Martin Lancaster, can I ask the Honorable John Kerr, North Carolina State Senator from Goldsboro, and the Honorable Charles McLawhorn, North Carolina State Representative from Winterville, North Carolina, and the Honorable Bob Kornegay, County Commissioner from Duplin County to please come and take their seats on the panel, if they are here.

Thank you all very much for being here, and at this time I will recognize Congressman Lancaster either to give his opening statement or to give his testimony at this time, whichever he prefers.

**OPENING STATEMENT OF HON. H. MARTIN LANCASTER, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF
NORTH CAROLINA**

Mr. LANCASTER. Mr. Chairman, I would request unanimous consent that my prepared statement, which has been previously submitted to the staff, be included in the record at this point, but I would like simply to make a few personal comments instead of simply reading that statement.

Mr. ROSE. So ordered.

Mr. LANCASTER. First of all, Mr. Chairman, I want to thank you for bringing your subcommittee to eastern North Carolina to hear from the people who are most affected by policies that impact tobacco that may be considered in Washington. It is, for me, a very special honor to have you and my colleagues here.

As many of you know, Charlie Rose has been the person in Washington for many years who speaks for the tobacco farmer in a way that has gained significant respect and attention from our colleagues in Washington. And to have him and his subcommittee here, I think, is a great honor for us and certainly a privilege for us to be heard by him and his colleagues on the committee.

As many of you know, Congressman Rose is now considering, should a vacancy occur, running for Speaker of the House. And I think that it is a measure of the kind of respect that Charlie has gained in Washington that he is very seriously considering this race and very seriously being considered by Members of Congress to fill this important post.

It would be unique, indeed, if we had a person, Speaker of the House, who has the kind of background and interest in tobacco that Charlie Rose does. So I know you all share, from that applause, the special pleasure that we all feel from the North Carolina delegation at his interest in this important post.

I am also pleased to have with us this morning a friend and colleague from Kentucky, Scotty Baesler. Scotty is one of the two Members of Congress that grew up on a tobacco farm, myself on the Democratic side being the other one, and I think we all need to know that today, while Scotty is here in this meeting, hearing from you, his wife is setting out tobacco in Kentucky.

I was going to ask you to give her a round of applause, but you did it even without my asking. I don't know if Alice would be setting out tobacco if I were in Kentucky today, Scotty. You have a good wife, I will tell you. But Scotty has come to Congress and has made a great Member of Congress and certainly, as an active tobacco farmer today and serving in Congress, he brings a special perspective to the problems that you face that are unique, and has been a very, very effective voice for tobacco farmers.

He happens to be a burley man, but realizes we are all in this together and has done everything that he could to help the tobacco program in general.

To illustrate that tobacco is not a partisan issue but in fact has friends on both sides of the aisle, I am very pleased also to have my friend from Georgia, Jack Kingston, who is a Republican Member of Congress and a Republican Member of this subcommittee. Jack is a new Member of Congress but comes from tobacco country in Georgia, and he, likewise, has been a real friend and has worked

hard with us in trying to tell the tobacco story in Washington. I am very pleased that he is here.

His wife and children are actually driving back to Georgia today and it was very convenient for him to stop here in Goldsboro to participate in this hearing.

So I do sincerely appreciate my colleagues being here. Congresswoman Eva Clayton had hoped that she would be here. Unfortunately, her staff, unbeknownst to her, obligated her to speak this morning in Durham. She tried all week to get out of that obligation; and, in fact, yesterday afternoon thought she had worked something out, but in the end was not able to.

But, likewise, she is a Member of this subcommittee and also a real friend of tobacco farmers and we know she wanted to be here. And she is represented by staff, Dianne Jenkins, and I know that those of you who may be from her district may wish to speak with her before you leave today.

I also want to thank Joan Rose and the members of the subcommittee staff and the members of my staff for all of the hard work they did in putting the hearing together and making the arrangements for the hearing. These things do not just happen. It requires a great deal of work, and I sincerely appreciate their help.

I also want to thank the witnesses, not only this panel who is before us but the others who will testify. We tried in our putting together these panels to get people we thought would be articulate spokespeople for tobacco, who would represent tobacco farmers, tobacco warehousemen, tobacco leaf processors and buyers, who would bring to this hearing today the unique perspective of eastern North Carolina, because that is what a field hearing is for, to go in the field where the people are affected by Federal policies and hear from them.

They are all outstanding leaders in the field of tobacco and people who will, I believe, bring the kind of testimony that this subcommittee needs to hear.

This has been, certainly for me, in the 16 years I have been in an elected service position in North Carolina and in Washington, the roughest year I can ever recall, especially when it comes to a commodity that is near and dear to my heart. As those of you in this room know, my daddy was a tobacco farmer and tobacco warehouser, and because of that, and because of the fact that most of my family still makes their living either directly or indirectly from tobacco, it has been a personally wrenching year for me to have to deal with the unrelenting attacks on tobacco that have occurred this year in Washington.

However, you folks are in this with us. You have shared that pain as well, and I know that those of you who came this morning, came because of your own personal concern about your future and your children's future. We do have, friends in Washington, and of course the folks who have come here today are the leaders of those friends, but there are fewer and fewer of them. And that is why it is important to have people like Charlie Rose speaking for us in Washington, because of the respect and the seniority that he brings to his remarks on our behalf. I hope that this hearing will in fact give us additional tools that we might use in fighting the fight for you in Washington.

Before I yield back my time to the Chairman and allow others to make their comments, let me also tell you of an opportunity that I hope each of you will take advantage of two weeks from today. Another great friend of tobacco in Congress is Congressman L.F. Payne from Danville. L.F. is the only Member of the important Ways and Means Committee from tobacco country. He has an incredible load on his shoulders to represent our interests in the most important committee in fashioning health care reform and in the committee that will determine what amount, if any, tobacco will be taxed to pay for health care.

L.F. will be here for a Dutch breakfast for tobacco farmers and their friends at King's Barbecue, in Kinston, two weeks from today at eight o'clock. We do, however, need to know if you are coming. So if you will let us know, we really would like to have you come, not only to show your support for L.F. and his efforts, but also to hear from him the special perspective that only he can bring, because he is daily in the meetings with that important committee and in private conversation with the new Chairman of that committee, Sam Gibbons of Florida, and we hope that with your support and with your encouragement, L.F. can hang in there with us.

If you will give my office a call, if you happen to live in Wayne County, that number is in the phone book, 736-1844. But if you live outside of Wayne County, we have an 800 number. If you will just call us and let us know that you are coming, that number is 1-800-443-6847; 443-6847. I hope you will join us, again two weeks from today, for a special breakfast with L.F. Payne.

Thank you again, Mr. Chairman, for coming and thank you, my colleagues, for also being here as well.

Mr. ROSE. Thank you, Martin.

[The prepared statement of Mr. Lancaster appears at the conclusion of the hearing:]

Mr. ROSE. Members of Congress who maintain an interest like you do in the Tobacco Pricing Program are becoming fewer and fewer, and the base of your knowledge about tobacco which has been put together over many, many years of working in the Congress. And knowing the various people there is an invaluable asset to the people of this congressional district, and we hope they realize that, and I believe that they do.

Before we recognize our first panel, I would like to give our colleague from Kentucky, Congressman Baesler, an opportunity to make any opening comment he would care to.

OPENING STATEMENT OF HON. SCOTTY BAESLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. BAESLER. Thank you very much, Mr. Chairman. I just enjoy being here. I represent central Kentucky, which is the number one burley producing tobacco in the country. I do, as Martin pointed out, we do raise a lot of tobacco, my wife and I, personally, so I am very committed to this program and appreciate having an opportunity to come down at Martin's request to be able to take part and learn more about what is happening here.

I think our interests are the same. We are all concerned about the repeated attacks from Washington on our crops today. We are

all concerned at the apparent unfairness of picking out one industry to pay for the health care of the country. We are all concerned by the attempts of folks to do away with an industry that means \$6 billion a year nationwide. And we talk about it and we sometimes think about us as the farmers or us as the people who sell to farmers. It is also the small grocery stores throughout the country. The number one seller they are going to have is cigarettes. We need to be concerned about them.

I appreciate Martin's leadership in talking about the taxes, because we have been in many meetings where we try to make sure there are no taxes. Whether that happens or not, I do not know. I am looking forward to hearing what you folks have to say. Whether we come from Kentucky or North Carolina or Virginia, we are all in this together.

So thank you for inviting me, Mr. Chairman, and particularly Martin, and I look forward to working with you to continue to protect what all of us know is the number one crop for rural Kentucky, I know, and I am hoping to work with you to make sure we preserve that.

Mr. ROSE. Thank you.

Our colleague, Jack Kingston, from Savannah. Recognize him for any opening remarks he would like to make.

OPENING STATEMENT OF HON. JACK KINGSTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. KINGSTON. Thank you, Mr. Chairman.

I want to thank you and Congressman Lancaster for having this important hearing, and we do want you all to know that they are two of the key players in Washington on this issue. Both of them have been leaders and have a tremendous amount of respect on both sides of the aisle, which in Washington is extremely important. And I think it is also important to have people who are experts to the degree that they can see the other side's argument and also see what is wrong with the argument.

What I have found as a newcomer to Washington is so many of the things you hear, when you get inside and study it, you find out they ignored half the things relevant to a study and they just decided what they were going to conclude before they made the study. And that is not the way we should take on this scientific task, but apparently the folks in Washington decided that is the way to do it.

I am also glad to be in Wayne County. I represent Wayne County, Georgia, and it is also tobacco territory. And I want you to know, probably like Wayne County, North Carolina, tobacco is tied to the school board, tied to the local automobile dealership, tied to the John Deere dealership, and the community bank, and everything else.

And people do not realize that the tobacco farmer is not alone. He might be on the front lines of the war right now, but the battle is a big one and it affects all of us.

And, finally, I would like to say that speaking on behalf of the constituents, what folks are telling us is that, yes, this is the tobacco industry, but you cannot divide it from the freedom industry. And folks back home are getting tired of the Federal Government

telling them what they can and cannot do. And I think we have to emphasize that.

So, Mr. Chairman, I thank you and Mr. Lancaster.

Mr. ROSE. Thank you very much, all of you.

The first panel have taken their seats. Our first witness is the Honorable John Hosea Kerr, North Carolina State Senate, Goldsboro, North Carolina.

STATEMENT OF JOHN KERR, NORTH CAROLINA STATE SENATOR

Mr. KERR. Thank you, Mr. Chairman, distinguished Members of the subcommittee. Welcome to Wayne County, the home of Martin Lancaster and Charlie Whitley, who are fighting for tobacco.

I have been studying my presentation. I would like to add, for the record, Mr. Chairman, two exhibits. And the one that I would really like to stress is what my leader, Martin Lancaster, put in the Roll Call, where he has articulated the arguments better than anybody I have ever read as to what is happening.

This 75 percent tax increase in tobacco is awful. They say it will bring in \$10 billion, but I doubt that very seriously because I think we will tax a legal industry out of existence. We also will have at least a 16 percent reduction in the consumption of cigarettes and manufacturing of cigarettes, which will result in, one, a loss of assets and allotments, and quotas will be reduced by at least \$200 million loss of value. Also, our farm income will be reduced by \$200 million, and all that will percolate through the economy.

There is no legal crop known to man that can come close to giving the per acre revenue to our farmers. We talk about diversification. We are diversifying, but there is no legal crop that can replace tobacco that will survive in dry weather, that can be irrigated, and it is something that we need, I think, to preserve.

We are now paying a tremendous amount of tax. I think tobacco excise taxes are \$47 per person for everybody in this country; \$12 billion a year. More than alcohol or as much as alcohol. We have a lot of farmers producing tobacco. We also have about three times more people owning allotments, small widows, people paying the tax, tax to their counties from their rent that they get, and this is what will happen with this tax that is being discussed.

We are one of the few States that are still producing tobacco, but tobacco was here, I believe, when Columbus came to this country, and I think tobacco will probably be here forever. But some people are trying to put it out of business by a regressive excise or sales tax.

Also, we will lose manufacturing jobs, and these are the good jobs: \$40,000 a year jobs, \$50,000. Sixty percent of these people are female; 25 percent of them are minority. We are losing everything. This county itself lost over 2,000 jobs to Mexico. After a while, we will be riding around this country eating at fast food places, suing each other, and I guess doping it up. It looks like that is all that will be left because the good jobs are leaving, and here this is a good section of our economy, the manufacturing jobs.

I would say in Raleigh, in 1991, we held the tax down on the tobacco. I lead that fight. And we added a couple of pennies. We have 5 cents in North Carolina. I think it is the second lowest in the

country. In 1993, the General Assembly passed a law that would prohibit governments from outlawing smoking in public places. I think that showed the legislative intent in North Carolina.

We have recently had two bills introduced this session, in retaliation to what other States are doing about suing tobacco companies for their medicare reimbursements. I do not think Congress meant that when you put reimbursement in the statute. But one of these proposed bills would allow our Attorney General, and these bills are pending now, to sue these States for the unemployment insurance that North Carolina might have to pay because of all the manufacturing and farm jobs that we will lose. This is a very interesting piece of legislation.

Also, this week Senator Sands introduced a bill that would kind of get back at Florida and California. North Carolina would look at the health problems with the citrus moving through North Carolina, and perhaps Kentucky, to markets, and whether that should be taxed. And these are bills, I think, that will open up the debate and raise the level of debate.

I think what I would like to testify about is, not so much with these experts, because I own about 6,000 pounds, I don't get very much, but we have some people that really know about tobacco here, so I would like to talk about what my people are telling me. They think it is ridiculous. They think it is unfair.

I think that America used to be a land of the free and home of the brave, and now they are thinking it is the land of regulation and home of—I am not going to say too much more about that, but we have a lot of other things that are killing a lot more people: automobiles, gasoline, alcohol, drugs. If we were serious about the problems of this country, we would stop the drugs coming in. We could tell Colombia that they would stop the drugs in six months or something is going to happen.

People have the perception that alcohol is protected by the big guys; that drugs are protected, illegal drugs, are protected by the big players. And the people think that the role of Government should not be to destroy a legal product by the use of regulation and taxation; that that is a wrong use of the power of taxation, to curtail personal freedom. It is social engineering through taxation and regulation. And I have fought against this. I think taxes have to be in relation to what the whole value of that commodity is to the country.

And I would like to just end up and say that we support your efforts. We have not had a Speaker of the House in this State in the Congress since, I believe it was Nathaniel Macon, who represented Wayne County in—Warren County, excuse me, in the 1820's, and I think, Congressman Rose, it would be a good time for North Carolina. It has been 150 years since we have had a Speaker of the House.

I would also like to end on another personal note. My grandfather had the pleasure of representing the second district in Congress and he was the author of the Kerr-Smith Tobacco Act in 1936. It was first declared unconstitutional. It was reenacted, and this Act started the stabilization and the allotment program. I think that has been very good. It has preserved the small farms,

and we want to preserve the small farms for the black and the small farmers.

Tobacco has sent more people to college and preserved the small farmer, and without tobacco you can believe that farm ownership will end up in the hands of the very few. And I know that is one of the things that this program has done, when tobacco was selling for 5 or 8 cents a pound in 1936. And it has given a stability to the market.

So, Mr. Chairman, I have a personal interest, and I believe we also have some family ties between our families, and perhaps that is why you and my Congressman are continuing this fight, and I certainly will try to assist you in any way I can. I appreciate the opportunity to make these remarks, and thank you for coming to Goldsboro.

Mr. ROSE. Thank you, Senator.

[The information appears at the conclusion of the hearing:]

Mr. ROSE. We will ask if you all can stay until all the representatives have spoken, we may have some questions for the panel.

Our next witness is the Honorable Charles McLawhorn, member of the North Carolina House of Representatives. Representative McLawhorn.

STATEMENT OF CHARLES McLAWHORN, NORTH CAROLINA STATE REPRESENTATIVE

Mr. McLAWHORN. Thank you, Mr. Chairman and Members, I appreciate this opportunity.

My name is Charles L. McLawhorn, and I represent the Ninth House District in the North Carolina General Assembly. This district contains two colleges, two nursing schools, a medical school, which is the pride of eastern North Carolina, and a hospital that offers state-of-the-art medical services to the entire region that extends into four congressional districts.

But this same district also contains some of the most productive farmland in America, and I speak for the thousands of people in this district who depend on the tobacco crops to support their families.

Tobacco farming is how my family earned its living for five generations. It furnished our groceries, it educated our children, and paid for our medical care. And although I have retired from growing tobacco, we continue to depend on renting this allotment to tobacco farmers every year as a supplementary source of income.

Although North Carolina still leads the Nation in the production of tobacco, I am one of the few members of the General Assembly with a farming background. As far as I knew, Martin Lancaster is the only Member of Congress who grew up on a tobacco farm. I learned this morning Mr. Baesler. But one of the very few. So I encourage all of you to consider carefully what Congressman Lancaster has to say, not because of the nature of his constituency but because of his personal experience, his intellect, and his solid perspective on the human cost of the proposed excise tax.

To the extent this excise tax influences individual choice, it is true consumption will be discouraged. However, to me it is utterly repulsive to employ a tax to prohibit or limit the choice of the individual, particularly one of limited means, to use tobacco. Already,

tobacco is by far the most heavily taxed commodity in the marketplace. It is well-known that this consumer tax is disproportionately paid by lower and middle-income taxpayers, whose expenditures for consumer products and the daily needs of life already consume a large portion of their income.

The current Federal excise tax on a pack of cigarettes is 24 cents. State excise taxes on cigarettes range from two-and-a-half cents to 51 cents per pack. The average State tax per pack is 26.7 cents. The Federation of Tax Administrators, which is a national association of State revenue officers, has estimated that the revenue loss in North Carolina alone will be nearly \$37 million over a five-year period if the proposed tax is approved. From the viewpoint of State and local government, this Federal excise tax will have a devastating effect in every jurisdiction.

Historically, tobacco has been a labor-intensive crop. For generations, entire families have learned the value of hard work in the hot sun—black and white, young and old, rich and poor. In 200 years, tobacco has evolved from the position of a proud economic cornerstone of the founding fathers to a whipping post of angry political activists.

In eastern North Carolina, many of us are still tied to that same post. The proposed excise tax is arbitrary and capricious and calculated to punish thousands of farm and manufacturing workers in order to reward the millions of Americans who choose not to use tobacco products. This is neither logical nor just.

It is not logical because tobacco is too heavily taxed in proportion to all other goods produced in this country. It is not just because it is regressive and it selectively applies to consumers who use a product which is not illegal.

When the founding fathers met in Philadelphia to write the Constitution that now binds us together, tobacco was the jewel in the crown of American agriculture. It is true that the world is very different now, but the principles of good sense, compromise, and equity are nowhere to be found in this dog-eat-dog world of politicians who continue to support ridiculous appropriations and are afraid to support any tax that affects a large number of people—all for the sake of reelection.

I ask you to stand up for the young American farmers who risk everything on the production of a crop that is recognized throughout the world as the best of its kind. I ask you to think about the widow who depends on her small allotment check and who has little else except the satisfaction of raising children who learned to work hard for what they have. I ask you to search your conscience and consult with your principles of fairness, and I thank you.

Mr. ROSE. Thank you very much, Representative McLawhorn.

Our third witness on this panel is the Honorable Bob Kornegay, County Commissioner of Duplin County.

STATEMENT OF BOB KORNEGAY, COUNTY COMMISSIONER

Mr. KORNEGAY. Mr. Chairman, distinguished Members of the committee, thank you for coming to eastern North Carolina. I am here today as a member of the panel that will focus on the impact of tobacco at the local level, and I will direct my comments to what

effect a significant tax would have on a local economy and local government.

Mr. Chairman, I represent a rural area of northern Duplin County as a county commissioner. As a graduate of the College of Agriculture and Life Sciences at North Carolina State University, and during my youth, I have always had a keen interest in two areas, agriculture and Government.

I believe that our Government, with as little intervention and red tape as possible, should foster a strong and competitive farm economy. In my home county of Duplin, great strides have been made in diversification, and we have benefitted from that effort. In 1993, Duplin County had over a quarter of a billion dollars in gross farm sales between swine and poultry. If you took all crops such as hay, soybeans, sorghum, grains, corn, cotton, and tobacco, your field crops, we had a total gross income of \$51.4 million. Of that \$51.4 million, tobacco accounted for 68 percent of the total gross income from field crops, or \$35 million. This makes Duplin County the twelfth largest tobacco producing county in the State. Tobacco has a three to four multiplier effect on the local economy, so you can see this crop is vital to Duplin County.

Some, who are not fully aware of tobacco's financial impact, though, may miss some facts by just looking at these numbers. Let's take a look behind some of these numbers and see what impact a tax might have on this commodity and county.

Mr. Chairman, some of what I am about to say is speculative. It is done so, though, after talking with local businesses, farmers and citizens concerning the possibility of a significant tax which is being considered by Congress.

In Duplin County, there are 1,540 farms that have tobacco allotments. According to sources in the farm community, there are approximately 400 or fewer actual farmers farming tobacco today. What that means is that there are approximately 1,000 farms that receive rental income from their tobacco allotment. Mr. Chairman, many of these rental incomes provide supplemental income that make the difference between a simple life-style and poverty.

Rural counties such as Duplin have more elderly citizens, because many of our young citizens, the leaders of the future, leave to go to urban areas. Because of this, rural counties face a higher burden in payments to citizens with little or no income other than social security. Clearly, in Duplin County, a significant reduction in tobacco production would increase the cost to the county in social welfare payments.

Furthermore, many farmers grow field crops to better utilize their facilities and land. Corn and soybeans do not make a lot of money for farmers in Duplin County. If you took tobacco out of the picture, many of these farmers would cease tending field crops because the money is just not there to justify continuing. Many farmers who have depended on tobacco to pay for their farm equipment would just simply have to give up because there is no way to make the income from other field crops. Bankruptcy would become one of the undesirable options available.

In addition, farm property is more valuable with a tobacco allotment. If the number of acres in the program were reduced, that would directly affect revenue to the county. Essentially, Mr. Chair-

man, we would have to raise our tax rates because Congress targeted a specific commodity for excess taxation.

I understand that the U.S. Department of Agriculture has recently estimated that there would be a 37 percent decrease in quotas if the Congress enacted a 75 cent per pack tax. Mr. Chairman, if in fact that resulted in a 37 percent reduction in sales, it would equal about \$12 million in direct gross farm sale income to farmers in Duplin County. In addition, when you figure the multiplier effect, you are talking about a \$36 to \$48 million reduction in economic activity.

Farm supply stores would see a reduction in sales of seed and fertilizers, clothing stores would see a reduction in sales, and significant pressures would be placed on our small businesses.

I am proud of the fact that Duplin County is prudent in its management of tax revenues that we are responsible for administering. It is difficult to carefully conserve resources and to do the progressive things that are essential to bring progress. But we are making progress. Building new schools and establishing new rural water systems are helping to raise the quality of living in the county.

Mr. Chairman, in my county, a 1 cent increase in the ad valorem tax generates \$118,756. We have a total budget of \$26 million, and of that, \$10 million was in property tax revenues. Other funds are from sales taxes that are collected by the State and returned. If a prohibitive tax is levied on tobacco, it is most likely that our sales of tobacco products will be reduced, therefore, reducing our revenue. It is likely a significant reduction in tobacco acreage grown will occur and will reduce by \$36 to \$48 million spent in the local economy.

In addition, some may be facing the loss of lease income because of the tremendous reduction in acreage that will certainly affect their income and place many at the poverty line. In essence, Mr. Chairman, the proposals I am hearing from Washington on how to finance the Federal health care plan will be devastating to Duplin County financially and socially.

The citizens of southeastern North Carolina are hard working, honest, decent people. To wreck their economy by trying to tax a commodity out of existence is something that I just cannot understand. I want to personally appeal to the Members of this committee and to other Members of Congress to very carefully look at what you are about to do.

The figures of a \$1.50, \$2.00, 75 cents are all very frightening to me as a citizen and farmer, but even more so as a county government leader. The dramatic adverse effects of such an unsound policy will place my county in a very difficult financial position. Your diligence and hard work to protect our heritage and way of life are greatly appreciated.

Mr. Chairman, I have attached two short pages of additional facts to copies of my testimony to be placed in the record. Again, thank you for coming to listen and learn about our feelings on this important issue. Thank you.

Mr. ROSE. Thank you very much, Mr. Commissioner, for an excellent statement.

[The prepared statement of Mr. Kornegay appears at the conclusion of the hearing.]

And before we open the floor to questions of the panel, Mr. Kornegay, in your last, next to last page of your statement, you talk about wrecking the economy by taxing a commodity out of existence.

I think this is a good point for me to interject something that we all learned yesterday in Washington; really, to hear it said officially for the first time.

Many of us have thought, as you have expressed it here, that the intent of the large cigarette tax was to tax a commodity out of existence. The President of the United States has rather straightforwardly said that the tobacco tax is to be used to help pay for the health care program.

Yesterday morning, 18 Democratic Congressmen, Congressman Lancaster, Congressman Baesler, and myself, met for probably an hour with Congressman Sam Gibbons, the new Acting Chairman of the House Ways and Means Committee, and he told us that he had put a 60 cent tobacco tax increase in his Chairman's draft, or Chairman's mark of the bill, and that he had spread that out over a number of years, and he wanted to know our reaction to it, and we all unanimously told him it was not a good idea; that we could not support that. I believe most all of us at this table certainly told him that.

And then he said something that we had never really had said publicly before, and he said, well, I am getting an awful lot of pressure from the antismoking Members of Congress to raise this tax to wipe out this industry.

Now, that is something unique. That is the first time the Chairman of the Ways and Means Committee has admitted publicly that those who are seeking a higher tax are trying to wipe out the tobacco industry.

And so I would very respectfully call on my President, President Clinton, to give us his assurances that he is not interested in taxing tobacco in a way that will wipe out an industry, but in a way that will be fair and equitable so that the tobacco industry could pay a fair and equitable portion of the cost of health care. And we believe in that very strongly.

And it remains to be seen what the final result will be, and I plan to respectfully make such a request to the White House when I get back to Washington. We just need a reassurance from our President that his tax is what he has said it is and that is an effort to help pay for the health care bill. If it is not that, the American people need to know that. We need to know that. And something else needs to be found as a source of taxation for the health care program.

You do not raise taxes on a product that you have taxed out of existence. So you are fooling the American people if you say we are going to raise the money from cigarette taxes if you are going to ruin the industry, run it out of business, you are not going to have any taxes, so, then, what else are you going to tax to actually raise the money?

I have talked too much. My colleagues, I will start with Mr. Baesler, any questions of this panel?

Mr. BAESLER. No, sir.

Mr. ROSE. Mr. Kingston?

Mr. KINGSTON. No. I would just like to know the speech writers for our panelists. They all had good presentations.

Mr. ROSE. Mr. Lancaster?

Mr. LANCASTER. No questions. I thank them as well for excellent testimony. Thank you for coming.

Mr. ROSE. Thank you all very much.

Our next panel, second panel, is Mr. Tom Parrish, Vice President of Corporate Affairs, Monk-Austin International, Inc.; Honorable Atlas Price, Seven Springs, North Carolina; Mr. T.C. Elks, Greenville, North Carolina.

If you all are here, if you will please come take your seats, we will appreciate it.

Mr. Tom Parrish, we are happy to have you. We will call on you now to give us your statement.

STATEMENT OF TOM PARRISH, VICE PRESIDENT, CORPORATE AFFAIRS, MONK-AUSTIN INTERNATIONAL, INC.

Mr. PARRISH. Mr. Chairman and Members of the subcommittee, I thank you for inviting me to participate this morning in this hearing on the matter of tobacco policy.

My employer, Monk-Austin International is an international leaf dealer which sources flue cured and burley tobacco from 15 tobacco producing countries and sells to tobacco product manufacturers around the world. We have offices and factories in Farmville and Kinston, North Carolina, Lake City, South Carolina, and Greenville, Tennessee. Our global scope provides us with a valuable first-hand international perspective on the U.S. tobacco situation.

We are convinced that our future growth is tied directly to the increasing market for tobacco products in countries outside the United States. Therefore, we must focus our corporate attention on effectively supplying the needs of our customers here at home and abroad. In my written statement, I make some comments on the Tobacco Program and the challenges a lot of the growers are facing at this point, and, I think, the decisions that they will have to make, but I was asked to confine my comments to five minutes and to specifically address the Interagency Task Force on Tobacco Exports and on the prohibition of Federal monies to promote tobacco exports.

The Interagency Task Force on U.S. Tobacco Exports, cochaired by the U.S. Trade Representative and the Secretary of Health and Human Services, published a notice and request for public comment in the Federal Register on May 2. As I understand it, the task force is reviewing U.S. trade policy regarding U.S. tobacco exports for the purpose of making recommendations to the administration for resolving perceived conflicts with U.S. health policy.

It appears to me that the antismoking lobby is merely using the Department of Health and Human Services in an attempt to dictate U.S. export policy with respect to tobacco and tobacco products. This manner of setting trade policy is both unprecedented and, I think, misguided.

Furthermore, in the context of trade, the health issue is irrelevant, since many countries already grow tobacco and manufacture tobacco products. More importantly, the export of U.S. tobacco has

an enormous positive economic impact on the U.S. tobacco industry and the U.S. economy.

As I mentioned, my written statement has a lot of facts and figures and I know that when you are listening to those things it is kind of hard to take them all in. But I do want to mention a few facts, we are dealing with facts here, that well-illustrate the direct contribution made by the U.S. tobacco industry and its exports.

In 1993, the United States exported leaf tobacco and tobacco products valued at \$5.6 billion. Even though the company I work for is a large company, we are still real impressed with dollar figures that are measured in the billions. In 1993, U.S. tobacco trade contributed more than \$4 billion to the Nation's balance of trade. In 1992, tobacco trade generated a surplus of \$4.9 billion. By comparison, the total U.S. trade produced that year a deficit of \$84.5 billion.

And on the matter of employment, in 1992, tobacco exports supported almost 300,000 jobs in the United States, which generated approximately \$7 billion in compensation and \$2 billion in tax revenue.

The export of tobacco is one of the few U.S. industries that produces a trade surplus with the principal trade regions of East Asia, Europe, and the Middle East. I think these facts illustrate the magnitude of the impact that tobacco exports have on all facets of the U.S. economy, ranging from local employment to reducing the U.S. trade deficit.

Earlier, Senator Kerr referred to an article that Representative Lancaster had written for the Roll Call that was published on May 23. I, too, think it is an excellent statement of the situation. I would like to read just one paragraph from Congressman Lancaster's article.

It says that "the export of tobacco products has long been one of the few bright spots among U.S. export categories, ranking sixth among only 31 positive trade balance categories. During 1992, tobacco exports totaled \$4.85 billion. It is ironic that the U.S. Trade Representative is involved in a task force that could substantially increase our trade deficit with foreign nations."

I think you hit the nail right on the head.

The parties who will suffer from a curtailment of U.S. tobacco exports for health reasons will be American growers and exporters; therefore, we strongly oppose any actions designed to restrict or ban tobacco exports.

I would like to make a few comments about several things which have been passed to prohibit the use of Federal monies to promote tobacco exports:

The agricultural appropriations bill passed last term prohibits the use of market promotion programs and cooperators foreign market development funds to promote tobacco and prohibits the USDA from paying salaries of personnel to promote tobacco exports. It is our position that the U.S. Government should continue treating the U.S. tobacco export trade as a very important part of the total U.S. trading economy. Any effort to inhibit U.S. tobacco exports ostensibly to protect the health of citizens in other countries is misguided.

Supplies of tobacco are readily available from many other countries that are successfully competing in the international market. These competing countries will quickly fill gaps resulting from a failure on our part to promote the export of U.S. tobacco. The United States Government should pursue a nondiscriminatory export policy which gives equal emphasis to promoting exports of all legal U.S. commodities and manufactured goods.

It seems the position of the Federal Government is that promoting tobacco exports is tantamount to promoting smoking. We contend this is not the case. There is a big difference between the two. Penalizing U.S. growers by eliminating tobacco export promotion programs will in no way affect the use of tobacco products in other countries.

Elimination of export promotion programs for tobacco will do irreparable harm to American efforts to penetrate the emerging markets in the former Soviet bloc nations and elsewhere.

The importance of market openings in recent years should not be overlooked. U.S. growers and exporters have benefitted by the opening of markets in Japan, Thailand, and Taiwan, and others. We are disturbed by a recent article by Hobart Rowen which appeared in The Washington Post on Thursday, June 9. Mr. Rowen stated that, and I quote, "According to congressional sources, the Clinton administration has decided—but has not yet announced—that it won't pursue Section 301 punitive trade actions against our trading partners who restrict access to their cigarette markets."

It is unfair and unwise to single out tobacco for exclusion from market promotion programs in view of the tremendous contribution that the industry makes to our economy and to our Government. Again, the parties who suffer by a failure to promote U.S. tobacco exports will be American tobacco growers, manufacturers, and exporters.

We at Monk-Austin are committed to doing our part to ensure a positive future for the U.S. tobacco trade, and we look forward to working with this subcommittee and all other segments of the U.S. tobacco industry to make necessary changes. Thank you.

Mr. ROSE. Thank you very much, Tom Parrish.

[The prepared statement of Mr. Parrish appears at the conclusion of the hearing.]

Mr. ROSE. The Honorable Atlas Price, Seven Springs, North Carolina.

STATEMENT OF ATLAS PRICE

Mr. PRICE. Thank you. Mr. Chairman, Members of the committee, I sincerely appreciate the opportunity to speak to you today as a member of the tobacco community, and I want to begin by thanking you for taking time out of your hectic schedule to hear first-hand the concerns of tobacco farmers and warehouse operators.

I have been involved with tobacco since high school and for many years I have been associated with the Carolina Tobacco Warehouse in Goldsboro.

Mr. Chairman, quite frankly, tobacco means money for Goldsboro and eastern North Carolina. Wayne County is the center of the largest producing area in the Nation. In 1993, Wayne County had 1,693 farms involved in tobacco. The six adjoining counties had the

following: Duplin, 1,540; Green, 945; Johnston, 2,478; Lenior, 1,276; Sampson, 1,550; and Wilson county, 1,356.

Mr. Chairman, that totals almost 11,000 farms, which represents 30 percent of all the farms involved in tobacco in the State of North Carolina and it is 25 percent of the total base acreage of flue-cured tobacco allotments in the entire State. So in essence, Mr. Chairman, if you drew a circle with a 50-mile radius of the site of this hearing this morning, you would encompass 25 percent of all of the tobacco, flue-cured tobacco grown in the State and 30 percent of the farms.

Obviously, the goal of any tobacco warehouseman is to attract farmers to designate your warehouse to sell his or her tobacco. Within the 50-mile radius that I have described, Mr. Chairman, is where businessmen such as myself and my associates on the Goldsboro tobacco market must compete. There is a limited amount of tobacco grown. When the farmer makes his decision to market with a specific warehouse, that is when a warehouseman lives or dies.

The more tobacco that comes to a market, the more help we have to hire to move the product through the system. I estimate that the Goldsboro tobacco market provides approximately—and Mr. Chairman, I would like to make a correction for the record here—approximately, it says 200 and that should be 500 to 600 seasonal positions which fosters economic growth in our community. And of course, the proceeds from the tobacco sales provide us with millions of dollars of profit for our farmers who pay for their local farm supply dealers for seed and fertilizer. What remains is the profit that our farmers use to pay their mortgage, buy their trucks and cars, and feed, clothe, and educate their families.

This brings me to a subject of great concern and that is the misguided desire of many Members of Congress to excessively tax tobacco.

As the Members of the committee are aware, a large increase in the Federal cigarette excise tax has been mentioned frequently as an option for financing new health care spending. As a tobacco warehouseman, I am gravely concerned that increased taxes will reduce demand and therefore reduce income for warehouses. That will in turn require fewer employees, less payroll taxes will be paid, and the net result will be a reduction in taxable proceeds to both State and local governments as well as the Federal Government.

In addition to being involved with tobacco warehouse business, I have served as an elected official, county commissioner, in Wayne County. I know that budgets are tight and the net effect of an unreasonable tax on tobacco would be bad for local and State government.

It is estimated by the Federation of Tax Administrators, who were responding to an inquiry from the Treasury Department, that local and State governments would lose \$4.2 billion in tax revenues if a 75 cent a pack tax were implemented.

Mr. Chairman, it is slight of hand for the Federal Government to take actions to address their problems and at the same time cripple the States and small communities throughout the Nation. The Federation of Tax Administrators' report concludes by noting that States are concerned that the magnitude of the proposed Fed-

eral increase will have a substantial crowding effect; it is so large relative to the price of cigarettes that it will make it difficult for States to increase their tax rates.

In North Carolina alone, Mr. Chairman, which is considered a low tax State when it comes to tobacco, it would cost the State nearly a quarter of a billion dollars over the next five years.

In closing, I want to ask that the Members of the committee continue to work diligently on behalf of the tobacco farmers and tobacco industry. I am proud to work in tobacco. It is and has been for more than 200 years an honorable and decent way for North Carolina citizens to earn a living. I am hopeful that as the debate continues that the Members of the committee will continue to educate their colleagues about the nature of the tobacco economy and the good things it has brought to our community, State, and region.

Your efforts to eliminate or reduce the proposed tax is appreciated and if the warehousemen of this area can be of assistance to you and Members of your committee in educating your colleagues about this issue, please call on us.

That is it, Mr. Chairman, and thank you, sir.

Mr. ROSE. Thank you, sir, very much.

Any questions from the panel? Mr. Baesler.

Mr. BAESLER. Yes. If I can, Mr. Chairman, I won't take too much time but somebody just struck a chord with me here.

Mr. Parrish, in your stated remarks I agree pretty much with what you said, but in your written remarks, I have got some questions. You suggest in your written remarks that the producer is going to have to think about lowering the price in order to be competitive in the world. Is that correct?

Mr. PARRISH. That is correct.

Mr. BAESLER. Do you have any price in mind that you think we are going to have to reduce considering the fact, particularly in the burley world we reduced almost 30 something cents in 1985. Do you have any price in mind you think we are going to have to reduce to?

What concerns me very candidly is I personally believe that the imports are the number one threat that we have, not the tax, although that is a problem. And in your written remarks you talked a great deal about the fact that unless the producers, both flue-cured and burley, would agree to lower the price, we are going to see a decreasing portion of the world market come to us.

What bothers me about that is that from 1990 we have seen an increase of—I am speaking mostly of burley, some of flue-cured. Exports may be increased to 30 million pounds from 1990 to 1993 on a three year average. But we have seen imports increase almost 240 pounds, burley alone.

I am having a problem here because I think from the company's perspective and from the exporter's perspective what you are suggesting to the producers whom I represent is that unless we either have less leased cost or lower production cost, we are going to have to recognize we are going to have to take a whole lot less for our product.

Maybe I am missing something, but I don't know how it is going to happen to the producer. Maybe the folks here in the flue-cured

can figure out how to cut 30 or 40 cents out of their production. I know I can't. I doubt if this fellow can.

You speak here of the lease price, to cut the lease price. Let me give you a few statistics. I happen to have a survey of 4,000 burley farmers talking about leasing. Most of them would agree that they would lower the price to, in our respect, to \$1.82, or 70 percent of them said they wouldn't mind keeping a constant price to keep a constant quota. But what we are not seeing here is the commitment on the part of the companies to be able to keep a constant quota. You are an exporter more than an importer so you are not the one I should be talking to about a lot of this.

Mr. PARRISH. We export and import.

Mr. BAESLER. You talk about lease. In your written remarks, you said we have got to lower the lease costs, the lease has been inflated. For your information, our people, concerning lease—I will give you a little statistical information about why the lease bothers me. Forty to 30 percent of my people say they want to keep the current leasing program. Four percent only say do away with the current program which means obviously that lease is a major portion of tobacco production.

Reducing the allowable lease from 30 to 15,000 pounds in our section to 17 percent, the only point I want to make is producers aren't going to buy this lease—this idea we are going to save production by doing something with lease programs.

What is your suggestion here? The idea to say we are going to have to lower our prices sounds wonderful, but I can't figure out where we are going to make it up.

Mr. PARRISH. Okay. As I said, we are convinced that the growth is in the international marketplace. In other words, in countries outside the United States consumption is growing, not declining as it is here. And if you agree with that premise, what we are trying to do is figure out how to sell tobacco to those people to fill their needs.

I will tell you that we have the majority of our business, the majority of our revenues are derived from the sale of U.S. tobacco and the majority of our assets are here in this country. So we are committed to a continued strong U.S. tobacco situation. But to sell tobacco to manufacturers overseas, price is of increasing importance to them. And there are a lot of things that go into the price of U.S. tobacco and I tried to reference a number of those.

Yes, the lease rates, the marketing costs, there are assessments, there are administrative costs and compliance costs. All of these things go to making U.S. tobacco the most expensive tobacco in the world. There is no one sector of the industry that can reduce or bear the whole reduction in cost that I think is necessary to be more competitive. We are all called upon, as I state in my remarks, that is Government, growers, warehousemen, and dealers, we all need to work to reduce our costs.

This week we were speaking with one of our major European customers and they pointed out to us that with the increased no net cost assessment, and of course with the budget deficit assessment, that their planned purchases this year will cost \$600,000 more than they did last year. And they maintain that they are willing to pay for tobacco—seed and the labor that goes into it and the

fertilizer—they are willing to pay a premium price for U.S. tobacco. But they do balk at having to pay what they consider to be expenses for which they receive no value.

And I think that on the real high lease rates, on the high assessments, they just don't see that they are getting any value for that. And as one of them candidly said to us about the budget deficit assessment, "Why should we have to contribute to reducing your budget by paying this fee on every pound of tobacco that we buy? We are already paying a fee on every pound of tobacco we buy to make sure that there is no cost of this program to the U.S. Government." It is hard for us to answer those questions.

So I don't know what the perfect price would be to make U.S. tobacco more competitive, but it has got to be lower than what it is. I do know this, that customers worldwide are willing to pay a premium price for what they consider is a premium product, and that is U.S. tobacco. But we all have to address ways in which we can cut back costs so that the sum total will be enough to bring price back to something that is more competitive.

I know in our company we are doing a lot of things, a lot of things that hurt, to cut back on our expenses. We are trying to increase our throughputs so we can be more efficient, and all of these things will work together to lower the cost of U.S. tobacco to make it more competitive.

Mr. BAESLER. I reckon my concern, and I am sure you know this, we did the buyout way back there. The price dropped 30 cents. We gave up \$90 million we accumulated. Now we find ourselves back in the same circumstance with a very high pool level which concerned me considerably when buyers said, ironically, that they are going to send 240 million pounds of burley to the pool but they imported 240 million pounds to replace it. That makes me suspicious and not too happy representing the producer.

But what you have said you don't—and I think you are truthful about that you cannot come up with what you think the price is going to be. Our people will not take 30 cents less. They will have a big revolt if somebody tells them they have to take \$1.50 less. I don't know about these folks, but we are paying \$1.00, \$1.10 trying to pay the minimum without the lease cost.

So I am real concerned about your comments because I don't see the export market increasing as much as I see the domestic market decreasing. What is happening is the domestic market is going like this, zoom, right now from our perspective and we are a little worried. I am more worried about your importing problem more than I am the tax. So I hope we are going to get out from all of this sometime this year.

Mr. PARRISH. Our company neither grows tobacco nor manufacturers a product. We try to put the grower and manufacturer together and price is of increasing importance to the customers that we deal with. I am just trying to relay that message.

Mr. BAESLER. Thank you.

Mr. ROSE. All right. Thank you. Any other questions for the panel?

Mr. LANCASTER. I have a question for Mr. Parrish. Do we have enough information yet with the ending of the use of the Market

Promotion Program to see what its impact is going to have on exports?

Mr. PARRISH. It might be a little early to assess that impact because the former Soviet bloc countries are only beginning to open and they are not opening as quickly as we had thought. They are strapped for cash and therefore they can barely afford to buy any kind of tobacco from any source.

So I think it is a little early to really feel the impact of cutting back or to prohibit use of those programs, but I think those markets will open and that they will be big markets.

The former Soviet bloc accounts for 700 billion pieces a year and in several of those countries people just plain can't get enough cigarettes. So there is a tremendous, tremendous demand, but their economies are in such disarray at this point that they are not able to look at U.S. tobacco. But I think they will sometime in the future and that is the reason it would be nice to have those programs available when we need them.

Mr. LANCASTER. Thank you very much again for your testimony.

Mr. ROSE. Thank you all for your testimony and we will excuse you now.

The next panel, Mr. Dean Rouse, producer, Seven Springs; Jerry West, producer from Fremont; Mr. Robert Halstead, producer from Ayden.

While these witnesses are taking their seat, I would like to continue reading from here, this is an actual copy of the final rules and regulations with regard to the domestic content law that we put in the budget that was passed last year.

It was published on Wednesday, June 1, 1994. I don't know if there are any particular—let's see what it says here.

Those provisions generally require domestic manufacturers of cigarettes to pay certain additional assessments that make certain tobacco purchases differ if for any calendar year, beginning with the 1994 calendar year, domestic tobacco constitutes less than 75 percent of the total tobacco used by the manufacturer to produce cigarettes in the United States.

Now, there is a member of the Department of Agriculture here that I would like for him to stand up so you can see, Doug Richardson. Doug, thank you for being here.

Congressman Charlie Hatcher has been nominated to be the person in charge of the tobacco and peanuts, I believe, tobacco and peanuts within the Department of Agriculture. It is a senior position and he has to be confirmed by the Senate.

But while he is awaiting that, we are very lucky that Doug Richardson was in that position. I knew Doug when we both started together in the early 1970s. He is now the acting head of this department in Washington, but when I first came to Congress in 1972, he was in charge of the county ASCS office in Cumberland County, my hometown.

This is not going to stand GATT, it appears, but what we have put in its place, what will be put in its place is an Article 28 procedure that it will establish an import quota for the amount of tobacco that can be brought into this country, just like there is an import quota for sugar coming into this country, dairy products

coming into this country, and peanut products coming into this country.

There is a little hole in the peanut one right now that we are trying to fill but the others are—it is GATT legal to have the Article 28 program when the imports threaten the Domestic Price Control Program.

So that is in place. It applies to 1994, and we know it is a fairly rough piece of law. The lawyers at USDA have now told us that they do not think it will withstand a GATT challenge. That challenge is ongoing right now. Rufus Yerxa, who is the Deputy U.S. Treasury Representative, has worked with our committee, our subcommittee. All the tobacco Members of Congress and the White House and Senator Ford from Kentucky—Senator Ford is really the person we have to thank for shaking this thing loose at the White House to get the White House to tell Agriculture to go ahead and put in place some kind of an import quota system under the authority of Article 28.

I thought you would like to know that. The man that got our domestic content regulations out is Doug. If Doug hadn't been as fortified as he is, people could have made these regulations drag on and drag on and drag on for years. But they were done within the first five months of 1994, and Doug, we are grateful to you for helping shepherd that.

Our last panel is as announced and our first witness is a producer from Seven Springs, Mr. Dean Rouse.

STATEMENT OF DEAN ROUSE, PRODUCER

Mr. ROUSE. Thank you, Mr. Chairman, and distinguished Members of the subcommittee. I appreciate the opportunity to address the issue today of the environmental tobacco smoke commonly referred to as secondhand smoke and ETS.

The tobacco industry has been a target for condemnation and ridicule since the late 1500s. However, not since the beginning of widespread public smoking, documented in the 16th Century, has there been such political attempts to prohibit use of tobacco products or control citizen's personal life-styles by regulations. Floods of campaigns are raging throughout our great country to regulate or prohibit any tobacco usage by a free, democratic society. These campaigns include unrealistic tax increases on all tobacco products, and a good example is the 10,417 percent proposed increase on smokeless tobacco in the Clinton health plan.

In addition, the Food and Drug Administration wants to control tobacco products because of nicotine in tobacco. Ironically, nicotine can be found in such common vegetables as tomatoes, potatoes, eggplant, cauliflower, broccoli, and peppers. One hundred grams of nicotine, the normal amount contained in a dish of eggplant parmesan, would be the equivalent to 30 hours in a room filled with smoke. Yet, FDA Commissioner, Dr. David Kessler, in a letter to Scott Ballin of the Coalition on Smoking or Health dated February 25 accused cigarette manufacturers of spiking their products with nicotine and the need to regulate such products by the FDA. If this be the case, will they need to regulate french fries also, or is this just another gimmick to attack the tobacco family? Proof that no

nicotine manipulation has occurred may be found in the temporal tar and nicotine data from the 1950s to the 1990s.

It is sad but it is true how the citizens of this great country are being led down the primrose path by small groups with personal agenda, just because they do not do something someone else is doing. Our rights guaranteed by the Constitution of this Nation are being eroded every day.

While these antitobacco campaigns continue in torrents, none are more severe and damaging than the Environmental Protection Agency's classification of environmental tobacco smoke, ETS, as a Class A carcinogen. Ms. Carol Browner, EPA Administrator, has stood behind the EPA ETS risk assessment study labeling second-hand smoke as a Class A carcinogen. The EPA has established a set of rules and guidelines based solely on questionable scientific merit. Of the 30 published studies on lung cancer associated with exposure to ETS used by the EPA, 54 of them originally reported risk estimates that did not reach overall statistical significance.

The six studies that did report a relationship were done in a foreign country and contained several flaws, including a failure to adequately account for diet and other life-styles. Only 11 U.S. spousal smoking studies were used in EPA's meta-analysis, none of which reported as published an overall statistically scientific association.

EPA did not include the results of one of the largest and most recent studies on lung cancer in nonsmokers conducted by the National Cancer Institute, which reported no increased risk from exposure to ETS. Ms. Browner's predecessor, Mr. William Reilly, stated in a Safeguarding the Future report prepared by a panel convened by the EPA that science should never be adjusted to fit policy. Yet a perception exists that EPA lacks adequate safeguards to prevent this from occurring.

The present position of Ms. Browner and EPA undermines the responsibility of other Government agencies like the Occupational Safety and Health Administration, which has jurisdiction over worker health and safety, and clearly misleads the public opinion and sentiment towards the true scientific facts pertaining to ETS. Because of the ETS risk assessment report and continual media attacks by outspoken congressional leaders like Congressman Henry Waxman, we are seeing a ripple effect of smoking bans throughout the country based solely on the ETS study.

Furthermore, the continued pressure of the antitobacco industry has penetrated the core of programs like the USDA's Foreign Agricultural Service's Market Promotion Program, commonly known as MPP, which Congress recently reduced from \$200 million in 1992 to \$147 million in 1993. And of these funds, tobacco's share of these funds were completely eliminated.

Tobacco is also being denied access to other export assistance programs through GSM 102 and 103 Credit Program and intelligence reports on our global competitors. This program, implemented by Tobacco Associates, has helped to open markets for American tobacco. Clearly, the future for our tobacco lies in exports and the reduction of the USDA financial support is critical to tobacco production in the U.S.

As a seventh generation tobacco grower, I am concerned about my future in the tobacco industry and the future of my neighbor. We are under attack by our own Government agencies and leadership to increase tobacco taxes, regulate tobacco through the FDA, and prohibit tobacco usage in public. It is an insult to the American farmer, the tobacco industry, and the 50 million plus smokers who use our products and contribute so much to our economy that we would be singled out with the ultimate goal of prohibition clearly evident.

Mr. Chairman and Members of the panel, I have two recommendations for your consideration. We need your help in getting the true scientific facts as they pertain to the ETS to the Members of Congress and Senate. We would ask that your subcommittee provide a complete report to both the House and Senate Members for their reference on ETS. And we strongly need your help in restoring tobacco programs like the USDA Market Promotion Funds for tobacco growers.

Since the formation of our Nation, revenue from tobacco has touched almost every aspect of human life: religion, educations, agricultural advancement, politics, and arts. Tobacco revenue has helped build schools, paid for road construction, building of local hospitals, community centers, and I could go on and on. In many areas where tobacco is produced, the entire community prosperity is related to the success of the tobacco crop.

Right now we are all very much aware of all the awareness campaigns that are done every year by various organizations, by various companies and whatever. I am pleased to announce to you that on Thursday, June 8, there was the first tobacco symbol ever placed on a public vehicle in Lenoir County in Kinston by the Sheriff's Department. They have placed this symbol in support of tobacco and the way of life that it provides for the people in North Carolina on their car. Fifty symbols were given to them, and I would like to recognize Sheriff Billy Smith with leadership and support in taking this stand, and want to encourage other tobacco leaders and the other leaders in North Carolina and throughout the United States to join in this effort.

My challenge to you today is simply to be proud of our heritage, to be strong in our convictions, and unite as a tobacco family to challenge the initiatives of the social engineers that want to tear down every fabric that have made this country great.

Thank you very much.

Mr. ROSE. Thank you very much.

Mr. Jerry West, producer from Fremont.

STATEMENT OF JERRY WEST, PRODUCER

Mr. WEST. Mr. Chairman, and distinguished committee men, welcome to Wayne County. And thank you for the opportunity to address the Members of this subcommittee on the Tobacco Price Support Program, its importance to tobacco farmers, and the possibilities of diversification to enable farmers to sustain the possible decline in tobacco production.

Since its implementation, the Tobacco Price Support Program has maintained stability of both price and supply in the production of tobacco. Because of the success of the Tobacco Program, farmers

have been able to maintain adequate incomes to their families. Tobacco has been the very life's blood for many families since the beginning of this great country, and continues to be for many of us.

Thomas Jefferson once said, "I like the dreams of the future better than the history of the past." But because of the unfair tax threats and attacks by antismoking zealots, the future holds a great deal of uncertainty for tobacco farmers. If there are any bright spots in the future, they must certainly be found in the export market. Tobacco will be grown and consumed throughout the world with growth being found in the developing countries. So why not grow and manufacture it here in the United States, with U.S. farmers and U.S. workers?

Some growers have concerns about adjustments that will be necessary to compete in a world market. And may I point out that these concerns are real. However, I feel the consequences of not competing will be far greater than the consequences of competing.

Earlier in the year, Surgeon General Elders stated that tobacco farmers must diversify to other crops, but upon being questioned as to what other crops she had in mind, she failed to give a direct, reasonable answer. She has suggested that some drugs such as marijuana should be legalized. Perhaps eastern North Carolina farmers should consider diversification into that crop.

Tobacco farmers are probably already the most diversified farmers in the country. Not only do we produce tobacco, we also grow a variety of vegetables—cotton, corn, soybeans, wheat, oats, canola—and a large variety of livestock. A change to other crops would come very slowly because of markets, demand, and availability of land.

Some of the crops we produce now are not profitable and increasing the production of the others would result in the demise of profits for them. If it were not for tobacco, farmers would have to double or triple their land base, therefore displacing at least one-half of their fellow farmers. We are not being unreasonable or reluctant to change. However, because of obvious reasons, we must remain adamant to the fact that tobacco cannot be replaced without severe consequences.

On a recent trip to Raleigh, North Carolina, Secretary Espy stated that this administration will be committed to the Tobacco Program. So, Mr. Chairman, I ask that we all be committed to the Tobacco Program, to do whatever is necessary to maintain current or increased levels of production, to protect jobs on all levels, and to treat this legal, revenue-producing crop with just cause.

Tobacco farmers are willing to do their fair share, but the proposals that are currently being considered are completely unfounded. I feel that it is only fair that tobacco farmers be allowed to continue to produce tobacco for domestic and export markets. However, I feel that we should take advantage of any arising opportunities of both diversification and increased production of currently produced crops.

Gentlemen, I ask today that when you leave here that you will take notice of this well-cultivated crop on the north side of this institution. I think it speaks for itself that we here in North Carolina have pride in tobacco. We have this pride because it supports such things as this beautiful institution, which I am a proud graduate

of, the magnificent hospital right down the road, and many, many more things.

I am proud to be a fifth generation tobacco farmer. And I ask you for your help and cooperation in allowing my sons to continue that tradition.

Thank you.

Mr. ROSE. Thank you very much.

Mr. Robert Halstead, producer from Ayden.

STATEMENT OF ROBERT HALSTEAD, PRODUCER

Mr. HALSTEAD. Thank you, Mr. Chairman and committee Members. I am a producer from Pitt County. We are the largest flue-cured producing county. And I am going to give—my remarks are going to be from the producers in my area and other producers in the county. I don't have any written statements to furnish you. My remarks will be brief.

The producers of flue-cured tobacco of Pitt County have a real concern about fairness. We sit around the country store a lot in the mornings. We talk about, you know, fairness. Farmers and producers love to be able to pay their equal payment, share. We want to pay our part. But do not ask us to pay for a health care plan that supposedly some people say tobacco causes the most of our health care problems.

I don't know about anybody else, but I don't think the doctors in Pitt County are any different than they are anywhere else. We all have to visit doctors, physicians once in a while. A report in last Saturday's Daily Reflector from Greenville says if you eat more than 12 hot dogs a month, you are subject to having a brain tumor, especially in children.

Same questions: What about eggs? Cholesterol. What about pork? High blood pressure. What about beef? What about alcohol? I have never seen a wreck caused by someone smoking a cigarette. Anything that we as humans use and use in excess will harm our bodies, tobacco included.

Another concern that I have, and I am glad, Mr. Chairman, that you brought this up because we sit around and we discuss it. We just can't understand taxing a product to pay for a health care program in hopes that we can do away with this product, putting a large Federal excise tax on tobacco to pay for most of the health care plan. Then on the other hand, think about it, if you get the tax and tobacco goes out, where will you get the money to continue this health care plan?

So I want to leave with you from the producers all around, all we ask, be fair. We will help pay our part.

Thank you.

Mr. ROSE. Thank you very much.

I thank all the members of the panel. I would observe that Jerry West is the outgoing president of the North Carolina Tobacco Growers Association. We thank you for your comments.

Mr. LANCASTER. Indeed Mr. West, thank you very much.

Mr. ROSE. Questions, Mr. Baesler?

Mr. BAESLER. I would like to ask—you are all producers and I would like to ask you something you heard in the previous testi-

mony concerning—from the gentleman talking about being able to compete in a foreign market, we would have to lower our prices.

I don't know what your average expected this year is for flue-cured. I know what it is for burley. I would like to ask each one of you three questions: First, understanding that would you support leaving—would you support reducing the price in order to be more competitive in export and, if so, how much? Mr. Rouse?

You heard the previous testimony that I am talking about, this crucial issue both in burley and in flue-cured.

Mr. ROUSE. Yes, sir, I heard it. Congressman, I don't see how we, at the current time, how we can reduce the price. I have heard this theory before, that if you reduce the price on the markets that it will be more competitive on the world market, but at the same time, somebody has got to take a loss and where is that loss going to occur? In the lease or in the—at the present time, we can't take anything less. If we do, it is going to dramatically affect our way of life.

Mr. BAESLER. Do the rest of you agree with that? Mr. West?

Mr. WEST. Yes, sir, I do. The one thing that bothers me is if price wasn't a factor and if it wasn't important, then we wouldn't have the problem with imports that we have got today.

You know, I have not got all of the answers and I can't tell you how much, if any, decrease in price support would help our situation, but at the same time I am afraid if we keep traveling down the same road we are traveling, it is going to lead to our demise, so I think—Mr. Baesler, I don't think this is a question that any one particular person can answer. But I think we have got to be ever mindful of working together with Congressman Rose and Congressman Lancaster and you people to monitor the situation and to stay—always stay aware of what is going on and be willing to listen to ideas and suggestions in the event that we see that we must make that change.

Mr. BAESLER. Mr. Halstead.

Mr. HALSTEAD. Yes, I will agree. But the producer cannot take all of this production price. It has got to be an effort of all bases—chemicals, fertilizers—all of us have got to do our part.

Mr. BAESLER. You can still carry over what you didn't sell this year to next year. One of our questions we ask is—particularly, we find next year our allotment is going to be like 60 million pounds because of the carryover, and the question we ask them is that we are allowed to carry over all the poundage that we do not sell the previous year.

Would you support gradually limiting the amounts you could carry over of the basic quota to 20 percent the first year, 15 percent the second year, and 10 percent the third year?

To tell how our people feel, about 50-50 say they would or they wouldn't. In the flue-cured country, how important is the carryover issue?

Mr. ROUSE. Congressman, there again, Mr. West, I think he indicated there has to be a united effort on behalf of everyone to make that decision and I don't feel that me personally can justify answering that without more facts and looking at it more closely.

Mr. BAESLER. I didn't expect you to answer for all the flue-cured growers in the world.

Mr. ROUSE. Yes, sir. I meant me personally.

Mr. BAESLER. Mr. West.

Mr. WEST. Congressman, I feel like the answer to that problem is to get production in line with quotas or poundage. I feel like we are operating on a scale that was set 20 years ago or so and we are able to produce more pounds of tobacco per acre now than we were then. So I think that the problem should be addressed by getting the allotments more in line with true production.

Mr. BAESLER. Mr. Halstead?

Mr. HALSTEAD. I agree. There is some work, supposedly, already some talk in ASCS about getting some adjustments made because we have some farms that do have a mighty load of poundage and we should get that poundage up to where or what we can produce today on an average year and this will take care of a lot of the carryover problem.

Mr. BAESLER. I have one more question and then I have to go home.

On the lease program, are either of you in favor of any changes in the lease program, and if so, what? I don't know exactly what yours is. I think it is probably similar to ours.

Mr. WEST. Yes, sir.

Mr. BAESLER. I will start with Mr. Halstead.

Mr. HALSTEAD. I am scared to suggest changing anything. I think the lease program we have now is doing fine and it is working for us.

Mr. BAESLER. What are your limitations on your lease?

Mr. HALSTEAD. You have to produce it on the farm.

Mr. BAESLER. You have got a different situation than we do. You have to rent the farm, so to speak. We lease the poundage off the farm. It comes to us.

Thank you all very much. I am sorry, Mr. Chairman.

Mr. ROSE. Mr. Kingston.

Mr. KINGSTON. Mr. Rouse, you said tomatoes, potatoes, and eggplants all have nicotine in them. Now, if that is the case, why aren't people addicted to them if the nicotine is in there?

Mr. ROUSE. I don't know why they are not addicted to them. I guess it is because of the lower amounts in them, but when they use them on a regular basis, I agree with you, there should be some addiction there.

Mr. KINGSTON. If you have any access to any information like that, it would be, I think, useful for us, because I think what you are really saying here is do we need to regulate french fries and so forth.

I think that is where we need to get people to realize, that tobacco is the product of today that the social engineers are after, but tomorrow it will be french fries and then it will be hot dogs and then it will be whatever. And, you know, this is social engineering. These are the people who want your 16 year olds to have condoms in their pockets and not cigarettes, and so that is what we are talking about here.

But another question on nicotine, in foreign-produced cigarettes, they do not have the regulations that domestic cigarettes have in terms of content, correct?

Mr. ROUSE. That is correct.

Mr. KINGSTON. So it would make sense that they would make their cigarettes more addictive, because if it is true that the higher nicotine you have in it, then you are going to buy the French cigarette versus the American imported cigarette, and if you were living in Paris, you are going to buy the cigarette that satisfies your addiction more, correct?

Mr. ROUSE. I agree.

Mr. KINGSTON. Have we ever studied the nicotine content in foreign cigarette versus the domestically produced cigarette and the consumption because of that nicotine level? Because if we did, I think that in terms of the allegations that American producers are messing with the nicotine levels, there would be a track record to say how does a American cigarette do in Paris compared to a French cigarette. And, you know, maybe that is something we should look into. And if you have any comment on that?

Mr. ROUSE. Well, on the first one, yes, sir, we would be glad to provide you with that information. The information I had provided to this panel today was based solely on some research that we have done in the last three weeks and we compiled it. We would be glad to provide you with our resources and how we got it.

Mr. KINGSTON. I would think that the committee who would say that the American tobacco companies would put higher nicotine levels would be remiss in their duties if they weren't also looking at what foreign countries who are less regulated are doing with their nicotine.

Mr. West, you talked about farmers doing something else. As I have talked to people about the situation with tobacco and they say, well, they ought to just start producing soybeans and you kind of give them a lesson in economics and they understand, but let's say that the Tobacco Program was eliminated completely, what would be the second choice crop? And what I tell folks is the second choice crop is to move to the city and learn a new trade completely, but is there anything out there that is a close second choice economically?

Mr. WEST. Congressman, I am also a cotton producer. And I guess if I had to pick anything as a second choice, it would be cotton. But as I said in my statement, we would have to increase our land basis to such an extent that it would certainly drive half of us out of business or more. It is just not—there is just nothing available at this time.

Mr. KINGSTON. In the State legislature, I served on the Ways and Means Committee and an acre of tobacco we always said produced about \$2,000 in tax revenues on a State and local level. An acre of soybeans is more like \$200.

Do you have any numbers like that?

Mr. WEST. I think right now on an acre of tobacco, State and Federal taxes is something like \$65,000. Each time I load my truck, and this is another point I would like to make, each time I load my truck to go to market, I am carrying a quarter of a million dollars in State and Federal taxes. So it looks to me like that instead of condemning us, the Government would send Brinks trucks out there to my farm to carry this tobacco to market.

Mr. KINGSTON. Do you have any number in comparison for cotton or for corn or soybeans?

Mr. WEST. My computer won't go that low, I will be honest with you, and I am not—I am being quite honest. It just—it compares no way to tobacco.

Mr. KINGSTON. Okay. Thank you.

Mr. ROSE. I thank the panel very much. We will excuse you now and we will have a few questions from the floor.

Before we do that, I want to ask Sam McLaughlin to come up and if he will briefly read the statement of the Commissioner of Agriculture, James Graham.

All of the additional people who are going to make a comment need to fill out a witness card and print carefully your name and address so we can have that made a part of the record.

There are a couple of points I was going to make. Cotton is heavily subsidized. There is no subsidy in tobacco. Wheat and corn are heavily subsidized. If a grain dealer buys his corn for \$2 and change a bushel, the Government pays him roughly another \$1.

So our friends from the Midwest who have trouble joining hands with us in agriculture need to remember that the day of reckoning is going to come for them on all agriculture subsidies. We are not asking for a subsidy. We are asking merely for permission to keep the program going.

I would like to just share with you a couple of points in the Federal Register from the rulemaking on domestic content. Now, I tell you this was a rather drastic step that we took last year to get the attention of everybody with regard to imports and it is not a long-term solution. We are facing something else.

I agree with what the witnesses have said as they expressed their concerns about the future. You can hear how Mr. Baesler reacts to that because of the situation in Kentucky. But we need to figure out a way to sit down with our tobacco manufacturers and cigarette manufacturers and our leaf dealer friends and determine a way to guarantee the farmer a steady quota right on out for another 10 years at least.

But let me, in this Executive Order, in this rulemaking, effect date January 1, 1994, it says: This rule is issued in conformance with Executive Order so-and-so. The final rule has been determined to be economically significant, therefore a final regulatory impact analysis has been conducted. A copy of the final regulatory impact statement may be obtained from Dr. Robert Miller in ASCS. You all may remember his initial report. We have explained the problem to him since then. And he has made some changes. It appears such as this:

The increase in the use of domestic tobacco is expected to draw down current loan stocks of burley and flue-cured tobacco by 159 million pounds in marketing year 1994. Consequently, the CCC loan outlays for tobacco for the 1994 marketing year is estimated to be about \$320 million less. These actions should in subsequent years reduce the amount of no net cost Tobacco Program assessments made by producers and purchasers of domestic burley and flue-cured tobacco. Additionally, with the domestic market assessment in place, about 1,000 farms may remain in operation over the next six years that would otherwise go out of business. That doesn't sound like bad news to me.

And then it says, if manufacturers shift cigarette production to foreign-based operations and there is a reduction of U.S. unmanufactured exports, a matter of 10,300 jobs could be lost. However, the largest domestic manufacturer of cigarettes has testified before this subcommittee that it will not shift any cigarette production overseas as a result of the domestic marketing assessment.

The impact statement indicated little effect on the consumer prices of cigarettes because tobacco accounts for only 3 percent of the retail cost of cigarettes, okay.

Mr. Sam McLawhorn is a senior member of the North Carolina Board of Agriculture. And he is here today to read us the statement from James Graham, our commissioner, who would have been here except for a schedule conflict.

Mr. McLawhorn.

STATEMENT OF SAM MC LAWHORN, SENIOR MEMBER, NORTH CAROLINA BOARD OF AGRICULTURE

Mr. MC LAWHORN. Mr. Chairman, Members of the panel, distinguished Members of the panel, it is a great honor for me to be here to speak before you and represent the Commissioner of Agriculture of the great State of North Carolina, the Honorable James A. Graham. He is at his grandson's graduation.

Gentlemen, I have not prepared a statement. What I have to say to you comes directly from my heart. I do not have a speech writer.

I am 70 years old. I am a sixth generation of tobacco farmers in eastern North Carolina here. My ancestors all before me were tobacco farmers. They were before the Civil War and after, up till the present day. Now, I'm handling the tobacco situation there.

I say to you tobacco has played a more important role in the history of this great Nation than any farm product you can find anywhere in the country. From the time Paul Revere made that famous ride from Concord to the Old North Church to hang the lantern up there, up to the present date, it has built many more churches, hospitals, businesses and lives.

Tobacco has played an important role in all the battles that this country ever fought. That includes the other day when we went over to Normandy and we looked at that this week on television. The great educators have used tobacco products. Thomas Jefferson was a farmer in Virginia. He grew tobacco.

The educational end, all the decisions that were made in great wars were made in a room with the people using tobacco. There was tobacco smoke in that room. They planned great battles and such—the Normandy invasion, the war in the Pacific, and the other battles. Tobacco has played a part in everything in this country. It has meant everything. It is the economy of the South. Without tobacco, the economy would be bad, would be terrible in this country here.

Now, in my opinion, you can go to any prison in the United States and walk that prison and 98 to 99 percent of the prisoners are there because of drugs and alcohol. The crimes they committed were done under the influence of drugs and alcohol. But you find me the first one in a prison that is there because he smoked a pack of cigarettes.

I have been smoking ever since I was about 10 years old. In fact, I used to swipe a pack from my dad. I still smoke king-size Chesterfields. I can't smoke them in here because of the blamed sign there on the door that says no smoking. I tell you what, that is wrong. The tobacco industry is being treated—well, I will go ahead and say it—like a bastard child, to tell you the truth.

Now, you fellows are doing a great job up in Washington, and I am tickled to death with the tobacco program as we have known it for the last few years and to date. I am satisfied with it, because I remember back when I was a little boy, I went to the warehouse with my father and we brought back loads of tobacco we could not even get a bid on. It was just as fine as ever been grown in this country. And the tobacco industry, under the present setup, is doing great. Doing good.

Now, as far as I am concerned, I am going to put my trust and my faith in you gentlemen, like you all, there in Washington. Do the best you can is all I can ask of you. We were doing all right till that woman broke out in the White House one day and said something about a \$2 a pack tax on cigarettes and that kind of tore up the situation.

Now, I am going to tell you there are two things that tobacco will do to you; if we lose this tobacco program and we lose the tobacco, it is going to cause two things. We are going to lose our economy in this country and we are going to lose some of the best Democrats that were ever born in the United States right here in the South. I was born a Democrat and I am going to be buried as a Democrat.

Mr. ROSE. Well, Sam, I want to interrupt you here and caution you that we really cannot take any partisan statements here, but we are glad to have your comments, and thank you very much. And Mr. Graham's statement will be made a part of the record.

[The prepared statement of Mr. Graham appears at the conclusion of the hearing:]

Mr. McLAWHORN. Let me say one other word.

Mr. ROSE. The gentleman is recognized for one minute.

Mr. McLAWHORN. Senator Sam Irving said, I read it sometime, that the Constitution should be taken just like Mountain Whiskey, undiluted and untaxed, and I am saying that North Carolina tobacco should be taken just like the produce and the citrus out of Florida and California, taken undiluted and untaxed. Thank you.

Mr. ROSE. Thank you, sir, very much.

We would request that you fill out a witness card, such as you have in your hand, and at this time we are going to take the microphone and we have a few people that wanted to make a very brief comment for the record. And I would call on our friends to come forward and identify yourself for the record and make a brief comment.

STATEMENT OF LARRY WOOTEN, NORTH CAROLINA FARM BUREAU

Mr. WOOTEN. Mr. Chairman and Members of the committee, my name is Larry Wooten and I am on the staff of the North Carolina Farm Bureau. I appreciate your presence here today. Your presence here indicates the interest that you have in tobacco, and I can

assure you that tobacco is of primary importance to every individual in this audience this morning.

I think one thing we may have overlooked, I would like to publicly thank the entire North Carolina congressional delegation, and the congressional delegation from the other southeastern States where tobacco is grown, for your unwavering support of this most important crop, and for your unwavering efforts in our fight against this excessive tobacco excise tax. While I am sure none of us endorse any increase, we appreciate your efforts and your willingness to fight to hold this excise tax as low as possible.

I think, as Congressman Rose mentioned a few minutes ago, one issue that is of paramount importance to our growers is the stability of our quota over the next 4, 5, or even 10 years, and I would like to report to you this morning, Congressman, that we are presently contacting our growing leaders in our counties and getting their input as to what reasonable and acceptable quota level should be for the long term, and we look forward to working with you in this effort.

Finally, I would like to ask the Members of the committee for your continued assistance in helping us restore funding for the Oxford Tobacco Research Station in Oxford, North Carolina. The research that goes on in this research facility in Oxford is of immense importance to the entire tobacco industry, the manufacturers as well as the growers. Much of the germ plasm of our tobacco varieties is housed here and much of the research that goes on in the storage of tobacco is of particular importance to our stabilization corporation.

Thank you, very much.

Mr. ROSE. Thank you very much, Larry Wooten, and for the work that the Farm Bureau does, especially in its tobacco committee and its board of directors and the people that you have here who are part of the Farm Bureau organization.

You brought up a very important point and I am going to ask Congressman Lancaster to comment on something you just said.

Mr. LANCASTER. Larry, I am very pleased to tell you that this week Congressman Bill Hefner of North Carolina has been able to work out with Dick Durbin, who chairs the House Agriculture Appropriations Subcommittee, and, unfortunately, is a real enemy of tobacco, a way that the research facility at Oxford can be salvaged. It will be offered by Congressman Hefner as an amendment to the appropriations bill, I understand, when it comes before the full committee of appropriations, and it is, in fact, we believe, a very good compromise.

It is not what we wanted, but it is going to keep that important research facility going.

Mr. WOOTEN. Thank you very much. That is good news.

Mr. ROSE. Are there other people who wish to make a very brief statement to USDA?

If so, come forward and identify yourself, but we must insist that it be just a very few minutes, and we would ask that the subject matter be limited to tobacco, please.

STATEMENT OF THOMAS K. DREW

Mr. DREW. Good afternoon, gentlemen. My name is Thomas K. Drew. I am a farmer from Goldsboro, Wayne County. In the spirit of George Washington Carver, and recognizing tobacco as the highest complex protein found in a plant food, and that we have only begun to grow the tobacco that needs to be grown, as a farmer producing tobacco for protein rather than nicotine, will I be bound by the quota allotment system and will my product be taxed more than Florida citrus or California tomatoes?

Mr. ROSE. My understanding is that if you want to grow tobacco for protein, and, Doug, you correct me if I am wrong, you can grow all the tobacco you want, you just do not get support price unless it is grown under the quota. Is that correct, Doug?

Mr. RICHARDSON. You cannot market it. That is where you get in trouble.

Mr. ROSE. The witness has stated that you cannot market it.

Mr. RICHARDSON. But, in all honesty, I am not sure.

Mr. ROSE. We will have to check. He says in all honesty he is not sure. I will check on that for you.

If you have one other statement or question you would like to make, go ahead.

Mr. DREW. There are two questions. Will it be limited by the allotment system, which had really created the situation where now that allotment has established stabilized production but destabilized any future development of a product?

And then the other question is, they are taxing tobacco, either smoking, dipping or chewing tobacco, but I am not sure chewing tobacco gets taxed. Will this product, being a tobacco product, be taxed as well?

Mr. ROSE. Well, I would say to you, if you have a product that is made out of tobacco for protein use in it, and you contact us on this subcommittee, we would be happy to see you got the kind of protection that you ask for.

Mr. DREW. This is something I heard 25 years ago; that they had developed a hog feed out of tobacco that the hogs preferred over the regular feed, and one thing you want to get a lean hog, it seems it to me, would be the preferred feed. And I understand that all the research, I hear, is either coming out of California, Florida, or somewhere else, and here we are a tobacco producing State and I hear no research of that sort coming from our learning institutions.

Mr. ROSE. All right. Thank you very much.

Any other comments?

STATEMENT OF RICHARD MOORE, STATE REPRESENTATIVE FOR THE STATE OF NORTH CAROLINA

Mr. MOORE. Gentleman, good morning. I am Richard Moore. I currently represent six counties in the North Carolina House. It is my hope that I will join you two in Washington next January as the Democratic nominee currently for the Second District of North Carolina.

First of all, I would like to thank you for the job that you are doing. I think many of us here in this room know the odds that we are up against. I was glad to hear some good news, as a native of Oxford and the sixth generation of my family to farm and live in

Granville County. I am glad to hear the research station will be kept open.

It is my hope that more hearings like this can be had in this area and it would be great if we could actually get a Californian to show their face at one of these hearings. Thank you.

Mr. ROSE. Thank you very much.

If you will sign one of our cards we will put that also in the record, and we probably need to go over near Oxford and do this also, Mr. Moore, so you let us know.

Thank you all very much.

Any other comments by the panel? If not, this hearing is adjourned.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

**Statement of
Congressman H. Martin Lancaster
before the
House Subcommittee on Specialty
Crops and Natural Resources**

Mr. Chairman, I thank you for convening this important field hearing of the House Subcommittee on Specialty Crops and Natural Resources to discuss current federal proposals as they relate to tobacco. As you know, the Clinton Administration and several anti-tobacco zealots in Congress have repeatedly and unmercifully attacked tobacco throughout the 103rd session of Congress. Unfortunately the zealots have the upper hand in framing the debate. Today, we add a new element to the debate as we will hear from three panels of North Carolina witnesses who have first hand knowledge of the impact that many of the suggested federal actions relating to tobacco would have here in North Carolina.

Tobacco has played a proud role in North Carolina's history since before Christopher Columbus set foot in the "new world". It is said that when Columbus did arrive, native Americans were involved in the production of tobacco and used tobacco in many of the same ways as we do today. More than a century later, tobacco production was so profitable in the colony of Jamestown that it was used interchangeably with money.

Several of the vehicles in the parking lot this morning have a bumper sticker which reads "Tobacco Pays My Bills". We ought to make two more bumper stickers: "Tobacco pays North Carolina's bills" and "Tobacco pays the bills of the United States of America. It has paid for the education of many North Carolinians. Two of the finest private universities in the nation, Duke and Wake Forest, were built with tobacco money. Tobacco money supports the North Carolina Symphony and many other philanthropic efforts. Of course, let us not overlook the \$5.7 billion in federal revenue generated by tobacco excise taxes.

Having grown up on a tobacco farm and having rented a tobacco allotment from my father to pay my way through college, I have much respect and admiration for the farmers in the audience today. Most work from dawn until dusk during the coldest days of winter and the hottest days of summer to support their families. Tobacco doesn't provide an extravagant lifestyle, but it provides enough income for many families to survive on the farms.

Some in Congress have suggested that tobacco farmers should diversify. Mr. Chairman, North Carolina farmers are already among the most diversified farmers in the world. Many are currently engaged in the production of cotton, corn, wheat, soybeans, vegetables and livestock. Further diversification may be possible, but I know of no legal crop which can be produced on the 80 or so acres of cropland on the average farm which will sustain a farm family.

Mr. Chairman, I look forward to the testimony we will hear today and look forward to returning to Washington so we can share the thoughts of these witnesses with

our other colleagues. We have a real battle on our hands. Fifteen or twenty years ago, tobacco could count on the votes of the entire House delegation from Maryland, the entire delegation from Virginia, and most of the Members of Florida. These states were stalwart defenders of tobacco. Now, most of Florida votes against tobacco, most of Maryland votes against us, Tennessee splits its vote. Even in Virginia, the home of a huge Philip Morris plant, we can no longer count on the whole House delegation.

I recite the sobering facts not to discourage our audience, but simply lay out the political realities tobacco faces in Washington. I can assure everyone that I am not discouraged and will go back to the Nation's Capitol re-invigorated by the citizens at today's hearing. Tobacco's opponents may hope that I will tire of speaking out for my people. Their hope is folly. Rest assured, I will continue to speak out for tobacco, for eastern North Carolina day and night, at every hearing, and during every debate.

Kerr - Ex^{*}

*North Carolina Taxpayers United**

Fact Sheet

Clinton Proposal to Raise Cigarette Taxes

The Clinton Administration has proposed a **313 percent increase** in the Federal Excise Tax (FET) on a pack of cigarettes from 24 cents to nearly a dollar. They say the additional tax revenues will be used to help pay for the Clinton Health Care Plan.

Such a tax is unfair; it falls heaviest on those least able to pay; it will sacrifice jobs and eliminate billions of dollars in workers' paychecks; and it singles out one consumer product to bear an undue burden. ***But most of all it won't produce the tax revenues that have been projected.***

The FET on tobacco, if enacted, will burden manufacturers, farmers, distributors, retailers, and the more than 50 million Americans who choose to smoke. The FET will provide great satisfaction to the anti-tobacco zealots who would like nothing better than to destroy the tobacco industry. ***But this misguided tax will hurt all Americans.*** As Chief Justice John Marshall wrote nearly two centuries ago, "***The power to tax involves the power to destroy.***"

The respected accounting firm, Price Waterhouse, analyzed the effects of a \$1 a pack FET. Here is what they found:

- 388,000 jobs would be lost;
- \$11 billion in paychecks would disappear;
- 2.3 million American jobs would be negatively impacted.

What Happens When the Projected FET Revenues don't Materialize?

A 75-cent FET increase is estimated to reduce cigarette sales by 12 percent. When projected FET revenues decline, and they surely will, other taxes will have to be imposed to make up the shortfall. Why mislead the American people into thinking that revenues will be produced when in fact they won't?

And what about the effect of a 75-cent FET on state excise tax revenues? All 50 states impose excise taxes on cigarettes to support education, social and other programs. A huge increase in the FET will substantially reduce state tax revenues. A report to the U.S. Department of Treasury by the Federation of Tax Administrators indicates that a 75-cent increase in the FET will reduce state excise revenues by 14 percent or \$875 million. How will they make up that decline? The obvious answer is to raise other taxes to make up the shortfall.

Tax Fairness?

We don't believe the government should raise any taxes. Americans are already overburdened. But if taxes to support health care are levied, they should, in fairness, be shouldered equally by all, and not borne by 50 million people who choose to use tobacco products.

Consider the fact that more than 136,000 small family farmers in 16 states rely on their tobacco crop for a substantial part of their income. They too will bear an unfair burden if this regressive and punitive tax is allowed to pass.

Hurt, too, are convenience stores and other retail outlets which derive a substantial percentage of their sales revenue from cigarettes.

The Critical Question

A January 26th, Toronto *Globe and Mail* story points out that a consumer revolt against high excise taxes has resulted in contraband sales, now accounting for three-fourths of the Canadian tobacco market. In effect, otherwise law-abiding citizens are forced into buying smuggled cigarettes because sky-high excise taxes place the product out of reach.

It is important to ask our elected officials why we are getting ready to raise taxes on cigarettes to an unreasonable level when our neighbors in Canada have tried it, found it doesn't work and are getting ready to repeal them.

The proposed FET increase is unfair, won't produce expected tax revenue, and will result in lost jobs and income for hundreds of thousands of workers. Our government is about to make a colossal blunder. *You don't have to be a smoker to see this as a misguided policy that won't work.*

If your senators or representative in congress supports the FET increase, you should ask them to explain why.

* *North Carolina Taxpayers United (NCTU) is a citizen-supported group based in Raleigh, North Carolina dedicated to tax equity and fairness.*

North Carolina Taxpayers United (NCTU)
3901 Barrett Drive, Suite 100
Raleigh, North Carolina 27609
Tel. (919) 571-1441

ROLL CALL

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In Defense of Tobacco Growers

North Carolina Rep. Martin Lancaster on Why Tobacco Farmers and Smokers Shouldn't Be Turned Into Criminals Just Because of the Way 'They Choose to Live Their Lives'

By Rep. Martin Lancaster

When you enter a certain supermarket in Northwest Washington, you are greeted by a warning sign posted on the door right next to the one that tells you that shoplifters will be prosecuted.

This one tells you that some products in the store contain saccharin and repeats the saccharin warning label: "Use of this prod-

Tobacco has played a significant role in the history of America, a role I am reminded of each time I see the tobacco leaves that adorn many of the columns in the Capitol.

uct may be hazardous to your health. This product contains saccharin which has been determined to cause cancer in laboratory animals."

There are inherent dangers that can be associated with the excessive use of most products in that store. It is appropriate that we be aware of the risks of excessive use of any product, whether the product contains saccharin, fat, sugar, artificial preservatives and coloring, alcohol, or tobacco.

However, all Americans have a right to choose and to make their own decisions about the risks they take and how they use a particular product.

But when it comes to tobacco, there seems to be a concerted effort to deny those in the industry the right to do business, whether they are farmers, agribusiness owners, workers, or manufacturers.

Tobacco has played a significant role in the history of America, a role I am reminded of each time I see the tobacco leaves that adorn many of the columns in the Capitol. When Christopher Columbus arrived on this continent, he found native Americans using tobacco in many of the same ways it is used today.

About a century later, tobacco production became so profitable in the colony of Jamestown that cured tobacco leaves were used interchangeably with money. After the use of tobacco became popular through the world, generations of hardworking farm families depended on tobacco to support themselves.

Dependence on tobacco production is a fact of life that continues on many farms in the Southeast. The typical North Carolina farm consists of about 100 acres of cropland, if tobacco is grown on the farm, federal restrictions on tobacco production limit acreage to 25 percent or less of the available cropland. With virtually year-round, back-breaking work, a tobacco farmer and his or her employees can generate income sufficient to sustain their families.

It would be next to impossible for many of these families to survive on their farms if tobacco revenues were lost. Some Members of Congress have suggested otherwise, recommending that farmers diversify into other crops, using a portion of the proposed punitive tax on tobacco products to help them convert to the production of some other commodity.

This notion has been rejected by most organizations of tobacco growers. They realize, just as I do, that at best, such funds would provide only a short-term panacea



"Dependence on tobacco production is a fact of life that continues on many farms in the Southeast," writes Rep. Lancaster. Above, tobacco fields in Durham, N.C.

With such small acreage, these farms can never support a family growing any other legal crop.

The farmers I represent are already among the most diversified of all farmers. They produce a variety of field crops, including cotton, wheat, corn, soybeans, cucumbers, peppers, and sweet potatoes. Unfortunately, an acre of any of these crops generates less than one-third of the profit realized from an acre of tobacco.

Research has been ongoing for years to identify another crop that could sustain farmers in the Southeast, but to date, no legal crop that I am aware of has been identified that generates revenues sufficient to sustain most family farmers with small acreages.

The same is true for the manufacturing sector. Workers in cigarette manufacturing plants are the highest paid industrial workers in America. They average \$22.50 per hour, or \$40,000 a year without overtime.

These jobs are all in the South. The workforce is 60 percent women and 25 percent African-American. There are no comparable jobs available for these people — perhaps no jobs at all — if these plants shut down.

Anti-tobacco groups are obviously not concerned about the economic impact of their numerous suggestions. More than 250,000 US workers would be displaced as a result of the Administration's proposed 75-cent increase in the cigarette excise tax and the 10.417 percent increase in the tax on some smokeless tobacco products.

By singling out tobacco products for a discriminatory tax, the Administration has con-

viced many nonsmokers that health care reform can be achieved without any taxes other than taxes they propose on tobacco products.

As one economist stated, accepting such an assumption is equivalent to "building on quicksand." Revenues resulting from a large increase in the tobacco tax will ultimately dwindle.

The Interagency Task Force on US Trade Exports, co-chaired by the US Trade Representative and the Secretary of Health and Human Services, is considering estab-

Anti-tobacco groups are obviously not concerned about the economic impact of their suggestions. More than 250,000 US workers would be displaced as a result of the Administration's proposed tobacco tax increases.

lishing trade policies that account for health concerns expressed by HHS relating to the use of tobacco.

The simple formation of such a task force will likely result in artificial trade barriers being placed on US exports of tobacco in an effort to test the US's fortitude to enforce international trade agreements.

The export of tobacco products has long been one of the few bright spots among US export categories, ranking sixth among only 31 positive trade balance categories. During 1992, tobacco exports totaled \$4.85 billion. It is ironic that the USTR is involved in a task force that could substantially increase our trade deficit with foreign nations.

The Department of Labor is pursuing regulatory efforts that will likely be consistent with the provisions of HR 3434, the Smoke-Free Environment Act of 1993, which attempts to improve the air quality in all buildings by banning smoking in every building regularly entered by ten or more people at least once a week, exempting only residential portions of buildings. If successful, the result will likely be an almost complete smoking ban.

Investigations of so-called "wick buildings" by private companies and by the National Institute for Occupational Safety and Health suggest that the major cause of employee complaints is not any single pollutant but inadequate ventilation that allows a number of indoor pollutants to accumulate.

Some of my colleagues on the Energy and Commerce subcommittee on health and the environment are also working in concert with the Food and Drug Administration in the hope of finding a justification for classifying tobacco products as drugs.

Originally, FDA Commissioner David Kessler alleged that new evidence was available that indicated tobacco companies were spiking the levels of nicotine in tobacco. The allegations are supposedly based on "new" information that cigarette companies are able to control nicotine levels in cigarettes.

Kessler's "new" evidence is centered around 33 of the more than 26,000 patents held by the cigarette manufacturers. These 33 patents could be used to alter nicotine levels. Kessler had no evidence that any of the patients are being used and, in fact, a subsequent hearing revealed that none of the patients had ever been used to increase nicotine levels in cigarettes.

Clearly the fact that low-tar and low-nicotine brands have been in the marketplace for many years suggests that nicotine in finished cigarettes is less than that which occurs naturally in the cured tobacco leaf.

Both Congress and the House Department are responding to the anti-smoking zealots and are seriously considering measures that would prohibit smoking almost everywhere but in private homes. The Interagency Task Force appears to be on a course to damage the trade balance by reducing tobacco exports. The FDA, with the help and encouragement of some of my colleagues, is threatening to regulate tobacco as a "drug."

Though I am not a chemist, it is brutally obvious to me that a tremendous difference exists between those who use legal tobacco products and those whose only concern is how to obtain their next fix of an illegal drug. Our prisons are not currently overflowing because of cigarette addicts who steal, rob, injure, and kill in order to obtain their next fix.

Tobacco growers are law-abiding citizens who take umbrage at being associated with the likes of the Colombian drug cartels. Through regulatory and legislative actions, the Administration and some Members of Congress would now turn tobacco growers and smokers into criminals just because they choose to live their lives in a manner other than the way some in the government think they should.

Such efforts are wrong; this is not the way we do things in this country. I and many of my colleagues will oppose such efforts.

Remarks by Robert B. Kornegay
County Commissioner
Duplin County, North Carolina
June 11, 1994

Mr. Chairman, distinguished members of the Committee, thank you for coming to Eastern North Carolina. I am here today as a member of this panel that will focus on the impact of tobacco at the local level and I will direct my comments to what effect a significant tax would have on the local economy and local government.

Mr. Chairman, I represent a rural area of northern Duplin County as a County Commissioner. As a graduate of the College of Agriculture and Life Sciences at N C State University and during my youth, I have always had a keen interest in two areas, agriculture and government.

I believe that our government, with as little intervention and red tape as possible, should foster a strong and competitive farm economy. In my home county of Duplin, great strides have been made in diversification and

we have benefitted from that effort. In 1993 Duplin County had over a quarter of a billion dollars in gross farm sales between swine and poultry. If you took all crops such as hay, soybeans, sorghum, grains, corn, cotton and tobacco, your field crops, we had a total gross income of 51.4 million dollars. Of that 51.4 million dollars, tobacco accounted for 68% of the total gross income from field crops, or 35 million dollars. This makes Duplin County the 12th largest tobacco producing county in the State. Tobacco has a 3 to 4 multiplier effect on the local economy so you can see that this crop is vital to Duplin County

Some, who are not fully aware of tobacco's financial impact though may miss some facts by just looking at these numbers. Let's take a look behind some of these numbers and see what impact a tax might have on this commodity and the County.

Mr. Chairman, some of what I am to say is speculative. It is done so though after talking with local businesses, farmers and citizens concerning the possibility of a significant tax which is being considered by Congress.

In Duplin County there are 1,540 farms that have tobacco allotments. according to sources in the farm community, there are approximately 400 or fewer actual farmers farming tobacco today. What that means is that there are approximately 1,000 farms that receive rental income from their tobacco allotment. Mr. Chairman, many of these rental incomes provide the supplemental income that make the difference between a simple life style and poverty.

Rural counties such as Duplin County have more elderly citizens because many of our young citizens, the leaders of the future, leave to go to urban areas. Because of this, rural counties face a higher burden in payments to citizens with little or no income other than Social Security. Clearly, in Duplin County, a significant reduction in tobacco production would increase the cost to the county in social welfare payments.

Furthermore, many farmer's grow field crops to better utilize their facilities and land. Corn and soybeans don't make a lot of money for farmers in Duplin County. If you took tobacco out of the picture, many of

these same farmers would cease tending field crops because the money is just not there to justify continuing. Many farmers, who have depended on tobacco to pay for their farm equipment would just simply have to give up because there is no other way to make the income from other field crops. Bankruptcy would become one of the undesirable options available.

In addition, farm property is more valuable with a tobacco allotment. If the number of acres in the program were reduced that would directly effect revenue to the county. Essentially, Mr. Chairman, we would have to raise our tax rates because Congress targeted a specific commodity for excessive taxation.

I understand that USDA has recently estimated that there would be a 37% decrease in quotas if the Congress enacted a 75 cent per pack tax. Mr. Chairman, if in fact that resulted in a 37 percent reduction in sales it would equal about \$ 12 million dollars in direct gross farm income to the farmer in Duplin County. In addition, when you figure in the multiplier effect you are talking about a 36 to 48 million dollar reduction in economic activity.

Farm supply stores would see a reduction in sales of seed and fertilizers, clothing stores would see a reduction in sales, and significant pressures would be placed on our small businesses.

I am proud of the fact that Duplin County is prudent in its management of the tax revenues that we are responsible for administering. It is difficult to carefully conserve resources and do the progressive things that are essential to bring progress. But we are making progress. Building new schools and establishing new rural water systems are helping to raise the quality of living in my county.

Mr. Chairman, in my county a 1 cent increase in the Ad Valorem tax generates 118,756 dollars. We have a total budget of 26 million and of that 10 million was in property tax revenues. Other funds are from sales taxes that are collected by the state and returned. If a prohibitive tax is levied on tobacco, it is most likely that our sales of tobacco products will be reduced there for reducing our revenue. It is likely that a significant reduction in tobacco acreage grown will occur which will reduce by 36 to 48 million

dollars spent in the local economy. In addition, some may be facing the lose of lease income because of the tremendous reduction in acreage and that will certainly effect their income and may place many at the poverty line. In essence Mr. Chairman, the proposals I am hearing from Washington on how to finance a federal health care plan will be devastating to Duplin County financially and socially.

The citizens of southeastern North Carolina are hard working, honest decent people. To wreck their economy by trying to tax a commodity out of existence is something that I just cannot understand. I want to personally appeal to the members of this Committee and to other members of Congress to very carefully look at what you are about to do. The figures of a dollar and fifty cents, two dollars, seventy five cents are all very frightening to me as a citizen and farmer, but even more so as a County Government leader. The dramatic adverse affects of such an unsound policy will place my county in a very difficult financial position. Your diligence and hard work to protect our heritage and way of life are deeply

appreciated.

Mr. Chairman, I have attached two short pages of additional facts to copies of my testimony to be placed in the record. Again, thank you for coming to listen and learn about our feelings on this important issue.

Tobacco Economic StatisticsDuplin County

In 1993, 20,580,511 pounds of tobacco were sold in Duplin County with total sales representing \$34,986,868. Although Duplin County acreages of corn, cotton, soybeans, and wheat each exceeded the county's tobacco acreage, tobacco generated more total sales dollars than these four commodities combined. (1993 Farm Income Estimates, NC Cooperative Extension Service)

Tobacco revenue has the multiplier effect of 3-4 times in a local economy. (Chase Econometrics, 1983)

In 1993, 1,540 Duplin County farms had tobacco allotments. In 1993, Duplin County ranked 12th in flue-cured tobacco production among North Carolina counties. (June 1993 NCDA NC Tobacco Report)

North Carolina

North Carolina is the largest flue-cured tobacco producing state, followed by South Carolina, Georgia, Virginia, and Florida. (1994 Tobacco Growers' Information Committee Leaflet)

In 1990, North Carolina had approximately 18,000 tobacco farms. (Price Waterhouse Accounting Firm, 1990)

In 1990, more than 280,000 people (9% of the state's workforce), were employed in North Carolina due to tobacco. (Price Waterhouse Accounting Firm, 1990)

In 1990, tobacco accounted for 281,368 North Carolina jobs generating \$5,715,666,000 in income. (Price Waterhouse Accounting Firm, 1990)

In 1990, total tobacco tax revenues (both state and local) in North Carolina amounted to \$700,687,000. (Price Waterhouse Accounting Firm, 1990)

In 1990, the total economic value of the tobacco industry to North Carolina was \$7,545,553,000. (Price Waterhouse Accounting Firm, 1990)

In 1992, North Carolina produced \$5.2 billion worth of agricultural commodities. Tobacco represented 20.3% of the total North Carolina agricultural commodity production value at \$1.06 billion. Broilers were second at 16.5% and hogs were third at 14.1%. (1993 NC Agribusiness Council, Inc. Leaflet)

United States

The 1993 United States tobacco crop value (all types) was \$2.9 billion. The flue-cured tobacco value portion was \$1.7 billion while the burley tobacco value portion was \$1.2 billion. (1994 Flue-Cured Tobacco Cooperative Stabilization Corporation Leaflet)

The Tobacco Merchants Association commissioned Wharton Econometrics Forecasting Associates to study the impact of the tobacco industry on the US economy. They found the following. The tobacco industry is directly and indirectly responsible for 2.3 percent of all jobs in the country. The number of jobs grew from 2.48 million to 2.64 million during the period 1985 to 1990. For every \$1,000 worth of goods and services produced by Americans in 1990, more than \$26 were generated by tobacco. Tobacco's contribution to the Gross National Product in 1990 was \$143.6 billion, up nearly 50 percent from the 1985 contribution of \$97.1 billion. California led the country in tobacco-related employment in 1990 with 310,550 jobs, compensation of \$8.97 billion, and taxes paid of \$5.78 billion. (August 1992 Flue-Cured Tobacco Cooperative Stabilization Corporation Newsletter)

In 1993, the tobacco industry produced a net positive contribution of \$4.0 billion to the nation's trade balance. (1994 Flue-Cured Tobacco Cooperative Stabilization Corporation Leaflet)

The current federal excise tax on a pack of cigarettes is 24 cents. Individual states add their own taxes ranging from 2.5 cents per pack in Virginia to 51 cents in Massachusetts. These taxes combined amount to \$43,000 per acre of tobacco grown in the United States. That amounts to \$12 billion per year in cigarette excise taxes. (1994 Flue-Cured Tobacco Cooperative Stabilization Corporation Leaflet)

Information compiled by:
Curtis D. Fountain
Agricultural Extension Agent
Duplin County Cooperative Extension Center
June 8, 1994

**Statement by
Thomas C. Parrish
Vice President of Corporate Affairs
Monk-Austin, International, Inc.**

to the

**House Agriculture Subcommittee on Specialty Crops and Natural Resources
Field Hearing --- Goldsboro, NC --- June 11, 1994**

Mr. Chairman and members of the Subcommittee, I am Tom Parrish of Monk-Austin International and I appreciate your invitation to participate in this hearing pertaining to the tobacco program.

Monk-Austin International, Inc., is an international leaf dealer which sources flue cured and burley tobacco from fifteen tobacco producing countries and sells to tobacco product manufacturers around the world. Our global scope provides us with a valuable first hand international perspective of the U.S. tobacco situation.

We are convinced that our future growth is tied directly to the increasing market for tobacco products in countries outside the United States. Therefore, we must focus our corporate attention on effectively supplying the needs of our customers here at home and abroad.

During the past decade, we have watched other countries around the world expand their tobacco production while our output here in the United States has declined.

Since 1980, worldwide flue cured production has grown by almost 120% --- production is up 303% in China, 83% in Brazil, and 71% in Zimbabwe. Production is also up in India, the Philippines, Argentina and Italy. During those 13 years, U.S. output of flue cured dropped 18.5% while our share of world production fell from 20% to 7.4%.

Since 1980, worldwide burley production has grown nearly 73% --- production has expanded 521% in Malawi, nearly 335% in Brazil, and 240% in China. Production is also up in the Philippines, Argentina, Thailand and Mexico. During those 13 years, U.S. output of burley declined 13.3%. In 1980, 44% of the world's burley tobacco was produced in the United States. Last year, the U.S. share was 29%.

Clearly, the geography of tobacco production is shifting dramatically. Not only has the geography shifted, but since 1990, total world tobacco production has expanded 21% while consumption has grown only 12%. The result: Annual production surpluses that have left us with excessive inventories of leaf tobacco worldwide.

Exports of U.S. leaf tobacco fell 20% last year, mainly as a result of the world oversupply. Excess inventories depressed prices and heightened worldwide competition in the world market. Most of the U.S. export decline comes from reduced sales to all of our traditional markets in Europe and Asia. If you compare last year's U.S. exports to 1992 levels, you will find sales to Germany were down 44%; to Turkey, down 17%; to the Netherlands, down 24%; and to the United Kingdom, down 14%.

Shrinking consumption is not the problem in all of these markets. The problem is that our traditional customers are looking elsewhere for tobacco. Why?

In general, U.S. tobacco producers are at a competitive disadvantage in the world market for three reasons: (1) Farm level prices in other producing countries are generally lower than in the United States --- and are falling; (2) The quality of foreign leaf is improving; and (3) Quality itself is no longer as critical to cigarette blends as it was in the past.

Our traditional customers in Europe and Asia are battling national and regional economic recessions. As shrewd businessmen, they look for ways to keep their cost down. In addition to adjusting inventories, many also turn to lower priced leaf markets to meet their buying needs.

We can understand and sympathize with the frustration felt by U.S. tobacco growers at the dramatic increase in imports of foreign tobacco in recent years. However, it is an unfortunate fact that rising imports are a symptom of the problem and not the problem itself. U.S. tobacco is not immune to economic or market realities. The dramatic growth and consumption of generic cigarettes, not only in the United States but elsewhere in the world, has created strong pressures on manufacturers to lower cost inputs. U.S. tobacco

remains the highest priced in the world, and is, therefore, at a significant disadvantage when it comes to satisfying this new demand for a lower priced cigarette.

Tom Capehart and Verner Grise articulated the challenge to American growers very well during their presentation in March to the Tobacco Marketing Cost Study Committee. They said: "The challenge to the American tobacco grower is clear. A number of nations are producing competitively priced quality leaf while the demand for very high quality leaf is decreasing. . New markets for leaf and cigarettes will develop in the coming decades, but demand will be for cheap, low quality tobacco. The coming decade will see greater emphasis on price. Unless U.S. farmers address the price issue, our share of world leaf trade will continue to shrink."

It appears to us that some leaders in the U.S. tobacco growing community are willing to tie their future to a declining domestic market. Any short term benefit gained from reducing imports will be offset in the long run by weakening our competitive position in the world market. Although import restrictions may stabilize flue cured and burley quotas for the next year or two, in the long run, they have set in motion what may prove to be irreversible losses on the export side. As an international merchant, we think that the expanding global market is where there are real opportunities for future long term growth.

If you think our perspective is credible, let's examine the U.S. situation from the standpoint of a foreign purchaser of U.S. tobacco. Many traditional purchasers of U.S. tobacco are still willing to pay a premium for U.S. tobacco. However, when they are asked to pay a price that is based on an artificial price support and which carries additional cost and adds no value to the product, they often balk. They ask us why they should pay for excessive quota lease rates, very high marketing cost, high assessments, and what they perceive to be unnecessary and unreasonable administrative costs of compliance with government regulations when they can find acceptable substitutes elsewhere. We all --- government, growers, warehousemen and dealers --- need to work toward reducing the cost of U.S. leaf.

Will we be able to adapt to this new reality? Clearly, any adjustments made in the quality and price of U.S. leaf tobacco must be producer decisions. The challenge is tremendous but the opportunities for growth are also tremendous.

I have been asked to comment on the activities of the Inter-Agency Task Force on Tobacco Exports and the prohibition of federal monies to promote tobacco exports.

INTER-AGENCY TASK FORCE ON TOBACCO EXPORTS

The Inter-Agency Task Force on U.S. Tobacco Exports, co-chaired by the U.S. Trade Representative and the Secretary of Health and Human Services published a notice and request for public comment in the Federal Register on May 2nd (Federal Register / Vol. 59, No. 83 / Monday, May 2nd, 1994 / Notices). As I understand it, the Task Force is reviewing U.S. trade policy regarding U.S. tobacco exports for the purpose of making recommendations to the Administration for resolving perceived conflicts with U.S. health policies.

The anti-smoking lobby is using the Department of Health and Human Services in an attempt to dictate U.S. export policy with respect to tobacco and tobacco products. This manner of setting trade policy is both unprecedented and misguided. Furthermore, in the context of trade, the health issue is irrelevant since many countries already grow tobacco and manufacture tobacco products.

More importantly, the export of U.S. tobacco has an enormous positive economic impact on the U.S. tobacco industry and the U.S. economy. The following is a partial listing of numerous facts which well illustrate the direct contribution made by U.S. tobacco exports:

- In 1993, the United States exported leaf tobacco and tobacco products valued at \$5.6 billion.

- U.S. tobacco trade contributed more than \$4 billion to the nation's balance of trade in 1993.
- Exports of manufactured tobacco products in 1993 totaled \$4.2 billion --- 92.3% of which was earned by cigarette exports. Tobacco products contributed \$3.6 billion to the nation's trade balance in 1993.
- In 1992, tobacco net trade generated a surplus of \$4.9 billion. By comparison, total U.S. net trade produced a deficit of \$84.5 billion in 1992.
- The value of total U.S. tobacco exports increased 129.2% between 1980 and 1993.
- During the period 1980-1993, tobacco made a cumulative contribution of \$43.8 billion to the U.S. trade balance --- \$10.6 billion from leaf tobacco and \$33.1 billion from manufactured products.
- In 1992, tobacco exports supported 299,255 jobs in the United States, generating approximately \$7.1 billion in total compensation and \$2.0 billion in tax revenue.
- The direct impact of the tobacco export industry on the U.S. economy in 1992 was 114,163 jobs that generated approximately \$2.4 billion in compensation and \$656 million in taxes. This employment represents an increase of more than 27,000 jobs created directly by the tobacco export industry since 1987.
- The indirect impact of the tobacco export industry on the U.S. economy in 1992 was 185,092 jobs that generated approximately \$4.7 billion in compensation and \$1.3 billion in tax revenues. This employment represents an increase of approximately 40,000 jobs created indirectly by the tobacco export industry since 1987.
- The cumulative six-year (1987-92) impact of tobacco exports on the U.S. economy: \$36.9 billion in compensation for American workers generating \$10.2 billion in federal, state and local tax revenues.

- The \$7.1 billion in compensation earned by those employed directly or indirectly by the tobacco export industry was more than any state paid out in unemployment benefits in 1992 and was even larger than the total unemployment benefit disbursements of California and New York combined.
- The export of tobacco is one of the few U.S. industries that produces a trade surplus with the principal trade regions of East Asia, Europe and the Middle East.

These facts illustrate the magnitude of the impact that tobacco exports have on all facets of the U.S. economy ranging from local employment to reducing the U.S. trade deficit.

As Representative Lancaster recently stated in the Roll Call (Vol. 39, No.86) on May 23rd, "The export of tobacco products has long been one of the few bright spots among U.S. export categories, ranking sixth among only 31 positive trade balance categories. During 1992, tobacco exports totaled \$4.85 billion. It is ironic that the U.S. Trade Representative is involved in a task force that could substantially increase our trade deficit with foreign nations."

The parties who will suffer from a curtailment of U.S. tobacco exports for health reasons will be American growers and exporters. Therefore, we strongly oppose any actions designed to restrict or ban tobacco exports.

PROHIBITION OF USING FEDERAL FUNDS TO PROMOTE TOBACCO EXPORTS

The Agricultural Appropriations Bill passed last term prohibits tobacco from using Market Promotion Program and Cooperator Foreign Market Development funds and prohibits USDA from paying salaries of personnel promoting tobacco exports.

It is our position that the U.S. government should continue treating the U.S. tobacco export trade as a very important part of the total U.S. trading economy. Any effort to inhibit U.S. tobacco exports ostensibly to protect the health of citizens in other countries

is misguided. Supplies of tobacco are readily available from many other countries that are successfully competing in the international market. These competing countries will quickly fill gaps resulting from a failure to promote the export of U.S. tobacco.

The United States government should pursue a non-discriminatory export policy which gives equal emphasis to promoting exports of all legal U.S. commodities and manufactured goods. It seems the position of the federal government is that promoting tobacco exports is tantamount to promoting smoking. We contend this is not the case. There is a big difference between the two. Penalizing U.S. growers by eliminating tobacco export promotion programs will in no way affect the use of tobacco products in other countries. Elimination of export promotion programs for tobacco will do irreparable harm to American efforts to penetrate emerging markets in the former Soviet Bloc nations and elsewhere.

The importance of market openings in recent years should not be overlooked. U.S. growers and exporters have benefited by the opening of markets in Japan, Thailand, Taiwan and others. We are disturbed by a recent article by Hobart Rowen which appeared in the Washington Post on Thursday, June 9th. Mr. Rowen stated that, "According to congressional sources, the Clinton administration has decided --- but has not yet announced --- that it won't pursue 'Section 301' punitive trade actions against our trading partners" who restrict access to their cigarette markets.

It is unfair and unwise to single out tobacco for exclusion from market promotion programs in view of the tremendous contribution the industry makes to our economy and government. Again, the parties who suffer by a change in the market opening policy will be American tobacco growers, manufacturers and exporters.

The challenge is clear: We must all have the courage to accept and implement significant change. We are committed to doing our part of assure a positive future for the U.S. tobacco trade. We look forward to working with this Subcommittee and all the other segments of the U.S. tobacco industry to make necessary changes.

Sam McSuglin

Statement of North Carolina Commissioner of Agriculture, James A. Graham for the House Agriculture Subcommittee Hearing in Goldsboro on June 11, 1994.

I would like to thank Congressmen Rose and Lancaster for scheduling this hearing in Goldsboro. It provides an opportunity for our producers to express themselves on current tobacco issues. I also thank them for accepting my statement on behalf of our North Carolina tobacco industry.

As you well know - tobacco has been a mainstay of our economy in North Carolina since colonial days. When I became Commissioner of Agriculture in 1964 tobacco made up almost 50% of our total farm income. Although the percentage is now down to approximately 20% of farm income, it has brought in over \$1 billion in every year since 1990.

Last year was not a terribly good year for tobacco growers. Average prices were down by over \$4.50 per hundred and ~~over~~ 200 million pounds went under loan.

Higher stabilization stocks coupled with lower buying intentions resulted in a 10% cut in quota for 1994. The cut would have been much larger except for legislation limiting it to 10%.

This year has seen ever increasing attacks on tobacco. A day seldom passes that some group does not present some new "Finding" in the evils of tobacco. The threat of major increases in federal excise taxes is still present. Many states have increased their taxes in the past year.

With the present climate there are many demands to "Fix" our tobacco program. My message to you is rather simple - our tobacco program has served us well and I do not recommend any drastic changes. I would hate to see us over react to what I hope are temporary problems in marketing our tobacco.

I fully realize that quota cuts are serious for our growers. Over the years these cuts have enabled our supplies to balance with demand.

I also would be very slow to recommend any major change in the price support structure. Our tobacco continues to be the highest quality in the world. We must do a better job of selling it to potential customers all over the world.

In summary I feel that our current problems are a result of a combination of factors. Among them are excise taxes, imports, world surplus supplies of cheap tobacco, declining domestic consumption, smoking bans in public places, and the constant barrage of anti-tobacco information. I submit that without the tobacco program we would have a complete chaos. Let's fine tune as needed but be slow to make major overhauls.

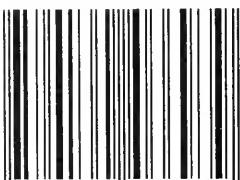


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